

Advances in Theory and Practice of Emerging Markets

Terry Wu
Nailin Bu *Editors*

International Business in the New Asia-Pacific

Strategies, Opportunities and Threats

 Springer

Advances in Theory and Practice of Emerging Markets

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This book is engaging and informative. It presents a collection of diverse and cutting-edge topics that offer new insights into international business activities in the Asia-Pacific region, raising questions for debate and opening pathways for future research, a must-read book for international business scholars.

— **Hussain G. Rammal**, Associate Professor of International Business and Strategy, University of Technology Sydney, Australia

This book offers a comprehensive introduction to the general business environment in Asia. It highlights the complexities and dynamics of doing business in Asia and provides insightful understandings of emerging issues in the region. The chapter-by-chapter analyses of the region depict the rich thematic contexts in which corporate executives as well as scholars in international business face key issues and challenges. I believe that this book is valuable for students of international business, global business environment, and regional studies.

— **Hongxin Zhao**, David Orthwein Professor of International Business, Boeing Institute of International Business, Richard A. Chaifetz School of Business, Saint Louis University, St. Louis, MO, USA

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Part I
Introduction

Chapter 1

The Asia-Pacific Region: The New Center of Gravity for International Business



Nailin Bu and Terry Wu

1.1 Introduction

A shift in the center of gravity of the global economy from the industrialized West to Asia is underway. At the end of the World War II, Asia was the world's poorest region with a dismal prospect (Myrdal, 1968). Today, the Asia-Pacific region—including Japan; the Four Asian Tigers of South Korea, Taiwan, Hong Kong, and Singapore; China; and the 10-member Association of Southeast Asian Nations (ASEAN)—has emerged as the most vibrant economic bloc in the world, accounting for nearly one-third of the global GDP (World Bank Data, 2021b) as illustrated in Fig. 1.1.

In this broad context of a regional success story, it is worth noting that the Chinese economy alone accounts for more than half of the Asia-Pacific region's GDP. The rise of China to economic prominence is indeed a fascinating tale. When it abandoned Mao's policy of isolationist planned economy in 1978, China was one of the poorest nations in the world with approximately 80% of its population living below the international poverty line (Zhou & Hu, 2021). Four decades later, China has become the second largest economy in the world.

The economic rise of the Asia-Pacific region has profound implications for international business. On the one hand, the region's manufacturing success has resulted

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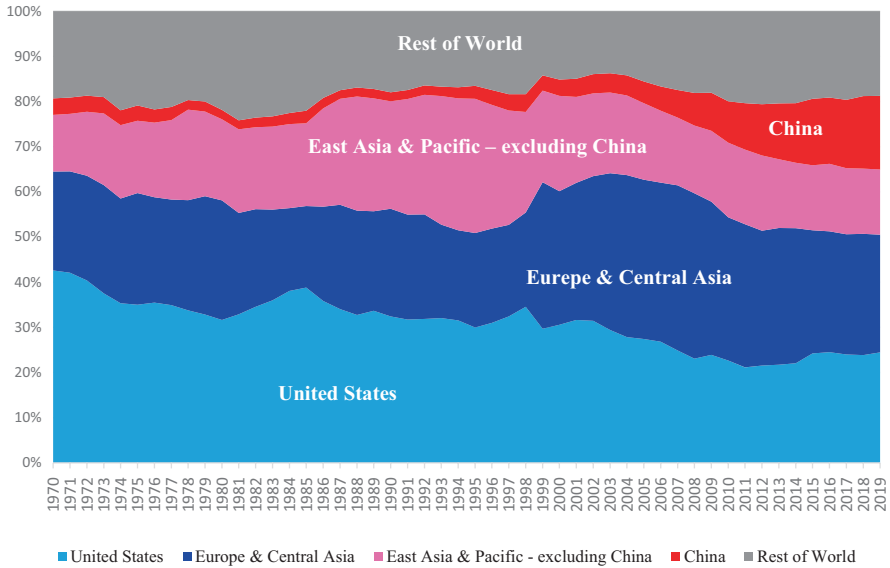


Fig. 1.1 Share of global GDP, current US\$. Source: Based on data from the World Bank. 2021. GDP (current US\$). <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD>

in economic disruptions in other parts of the world. In response, retreats from globalization in the form of trade wars have gained popular support recently in some parts of the world, which will likely have drastic impact on global firms' existing manufacturing supply chains in the Asia-Pacific region and beyond. On the other hand, the emergence of the Asia-Pacific region as an economic powerhouse has reshaped the global economy beyond manufacturing supply chains. Consumer spending by the region's emerging middle-class will likely become the most important driver of global economic growth in the decades to come. Furthermore, the Asia-Pacific region has become fertile ground for cutting-edge technological innovation and new global brands, presenting global firms with both exciting opportunities and mortal threats. Indeed, global companies need to re-examine the emerging threats and opportunities in every dimension of their business, including investment, technology, production, innovation, and marketing.

This book is motivated not only by the economic significance of the Asia-Pacific region, but also by a stirring anticipation that this region is on the cusp of a massive transformation driven by both external forces, such as changing attitudes in the West toward trade and globalization, and the supply chain shockwave triggered by the COVID-19 pandemic; and internal factors, including rising income and aging population. As a result, this is an important moment to observe and analyze the changes underway in Asian manufacturing supply chains, the ways in which Asian consumers are reached and served, and the regional and global reach of Asian firms.

1.2 Major Developments in the Twenty-First Century

The twenty-first century began with a period of uncertainty and transformation for many Asia-Pacific countries. As will be explained next, six major developments have significantly reshaped the economic and geopolitical environment in the Asia-Pacific region: economic integration, the 2007–2008 global financial crisis, important changes in the international environment, technological competition, an aging population, and the global COVID-19 pandemic.

1.2.1 *Economic Integration*

The first of these key developments is the increase in economic integration and gradual reduction of trade and investment barriers within the Asia-Pacific region since the turn of the century. Due to the export-oriented nature of their economies, most Asian countries are clearly committed to trade liberalization through removing tariff and non-tariff trade barriers (Fukushima, 2009). Most notably, China joined the World Trade Organization (WTO) in 2001, which supercharged its rise as a pivotal player in the global economy (Agarwal & Wu, 2004; Winter, 2020). Economic integration of the region was further strengthened when 11 countries concluded the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) in 2018 as a replacement for the original Trans-Pacific Partnership (TPP) after the exit of the United States. Paralleling the CPTPP is the China-led free trade bloc known as the Regional Comprehensive Economic Partnership (RCEP), signed in 2020.

This economic integration has resulted in increased trade and investment within the Asia-Pacific region over the past two decades. According to UN statistics, 60% of trade in Asia is now intraregional (UNCTAD, 2020). Consequently, Asia-Pacific economies have become tightly intertwined, with China as the central trade link in the region. Given its economic size, China has become the largest trading partner of every single Asian economy (IMF, 2021).

1.2.2 *Global Financial Crisis*

The second development is the global financial crisis of 2007–2008, which resulted in a deep economic recession in Western industrialized nations. The financial crisis also brought its devastating effect to the Asia-Pacific region, sparing none except perhaps China. Many highly trade-dependent economies in the Asia-Pacific region, such as Hong Kong, Taiwan, Thailand, Malaysia, and South Korea, were hit hard (Bernanke, 2009). However, the Asia-Pacific countries had entered the crisis with ample fiscal space, given their generally sound macroeconomic policies and fiscal

conservatism shaped by lessons from the Asian financial crisis two decades earlier (IMF, 2000). As a result, they were able to launch timely and decisive countercyclical responses (Das, 2012). China, in particular, delivered a hefty stimulus package, which accelerated the growth of its economy (Bernanke, 2009; Das, 2012). These measures energized demands in the region and boosted intraregional trade. Furthermore, the crisis and China's powerful response highlighted the relative economic decline of the West in the minds of many Asians, further strengthening the centrality of the Chinese economy to trade flows within the Asia-Pacific region (Das, 2012; Leng & Rajah, 2019; Vaswani, 2018).

1.2.3 International Environment

The third development to emerge in the early 2000s was the rise of a new wave of protectionism and anti-globalization movements triggered by populist and nationalist political attitudes (Casadei & Iammarino, 2021; Evenett, 2019). These political forces have negatively impacted on international trade involving global value chains (Handley & Limao, 2015, 2017). The international trade environment has been further aggravated by growing tensions between the United States and China on both economic and political fronts. In 2016, the election of Donald Trump—a self-proclaimed “tariff man”—as the president of the United States epitomized the populist hostility toward globalization (Rooney, 2019). The large trade deficit with China is increasingly detested, as it is believed to have cost millions of American jobs (Scott & Mokhiber, 2020). Trade contests with China and “re-shoring” of supply chains have become the priority of both the Trump and the subsequent Biden administrations. Indeed, the punitive tariffs imposed by the Trump administration on many Chinese imports remain in place 6 months after President Biden has taken office (Mullen, 2021b).

In addition, as a result of its assertive foreign policy and coercive diplomacy, China is facing a more hostile international environment compounded by the constant anti-China rhetoric from the United States. In particular, China's neighbors in the Asia-Pacific region are increasingly suspicious of its ambitions of regional domination and control of the South China Sea (Chung, 2009). These changes to the geopolitical environment have significant implications for the region's business environment.

1.2.4 Technological Competition

The new century marked an economic transformation from a traditional, production-based economy to a new, knowledge-based economy. Technology and innovation have become the new drivers of international business. New products are developed

by latest innovations in technology across the world. As a result, the international business landscape is evolving into complex webs of online shopping and electronic commerce, replacing traditional domestic retail (Agarwal & Wu, 2018).

As the early industrializing economies in the Asia-Pacific region, Japan, South Korea, and Taiwan are the region's technological leaders with a long history of technological innovations. For example, Japan has become a commanding force in industrial robotics, semiconductor manufacturing equipment, and biomedical devices (Chen, Watanabe & Griffy-Brown, 2007; Foster, 2020; Inoue & Miyazaki, 2008; Statista Research Department, 2021b). South Korea, in turn, has emerged as a technological leader in a variety of high-tech products such as high definition digital television, semiconductors, and consumer electronics; while Taiwan has become an indispensable global player in semiconductor manufacturing (Choi, Narasimhan & Kim, 2016; Glosserman, 2020; Hwang, Kim & Kim, 2009; Irwin-Hunt, 2021; Kim, 2021). Today, South Korea, Taiwan, and Japan continue to invest heavily in technology, spending 4.6%, 3.5%, and 3.4% of their respective GDPs on R&D in 2019, surpassing the US investment of 3.1% and the OECD average of 2.5% (OECD Data, 2021).

In recent years, China's ambition of technological self-sufficiency and supremacy has been made abundantly clear in its heavy investment in cutting-edge technology. Indeed, the country has made incredibly rapid advancement in technology, including 5G, artificial intelligence, and electric vehicles. These developments have alarmed many in the United States. The US government has blacklisted many Chinese firms that, it claims, threaten the US national security or foreign policy interests, have ties to the Chinese military, or sell surveillance technology used against religious minorities and dissidents. Depending on which of the two blacklists a Chinese firm is on, Americans or American firms are prohibited from investing in, or conducting business with, that Chinese firm (Lam & Ossinger, 2021). Some of China's key technology firms, including Huawei most famously, belong to both lists (*The Straits Times*, 2020). During a press event at the White House in March 2021, President Biden stated: "China has an overall goal ... to become the leading country in the world, the wealthiest country in the world, and the most powerful country in the world ... That's not going to happen on my watch because the United States is going to continue to grow" (Renshaw, Shalal & Martina, 2021).

This techno-nationalism, embraced by the world's top two economies (Evens, 2020), has profound implications for the Asia-Pacific countries and their firms. On the one hand, the intense rivalry and the resultant mammoth investment in research and technology by both China and the United States will spur technological innovation and demand for products such as semiconductors, which are primarily manufactured in the Asia-Pacific region. On the other hand, many technology firms in the Asia-Pacific region are forced to walk a tightrope, in constant fear of offending either economic giant.

1.2.5 Aging Population

While it has been well documented that women's fertility rates decline as their income and education levels rise, the drop in fertility in the Asia-Pacific region has been uncharacteristically rapid. The fertility rates in Philippines, Laos, and Cambodia range from 2.5% to 2.7%, and the rate in Indonesia hovers just above 2.2%. However, in the rest of the Asia-Pacific economies, they have dropped below the 2.1% replacement rate needed to maintain the population size (World Bank, 2021a; *The Japan Times*, 2021). In the Four Asian Tigers of South Korea, Hong Kong, Taiwan, and Singapore, the fertility rates are at or below 1.2% (World Bank, 2021a; *The Japan Times*, 2021). Japan, with a fertility rate standing at around 1.4% and life expectancy among the highest in the world, is unlikely to alter its status as a superaged society any time soon (World Bank, 2021a). Given their extremely low birth rate and high life expectancies, the four Asian Tigers can be expected to join Japan as superaged societies over the coming decades. Perhaps most significantly, given its role as the world's leading producer of manufacturing goods, China's working-age population (those aged 16–64) has begun to fall, and is expected to decline by an additional 9% from 2015 to 2035, and then by 20% in 2050. In 2016, after 37 years of the one-child policy, the Chinese government implemented a two-child policy. However, the country's birth rate continued to drop in 2017 and 2018. In 2021, the government further relaxed the two-child limit to three, which many observers believe will be a case of too little, too late (Black & Morrison, 2019; Mullen, 2021a; Obe, 2019). These demographic trends in the Asia-Pacific region will have serious consequences for labor costs and patterns of consumption.

1.2.6 Global Pandemic

The latest major event is the global pandemic of COVID-19, which has sent the world into a state of turmoil since the spring of 2020. The spread of the coronavirus around the world has paralyzed the global economy, including many in the Asia-Pacific region. It is the first time in history that all nations have been simultaneously adversely affected by a global pandemic.

The impact of the pandemic on the economy has been mixed. On the one hand, human tolls notwithstanding, some business sectors in the Asia-Pacific region have benefitted from the booming demand for technological equipment due to the pandemic lockdown that moved business and social lives into the virtual space (Rees, Schussler, Wittenstein & Remondini, 2021). In the semiconductor industry, in particular, this demand has contributed to a severe worldwide shortage and rising prices of semiconductor chips. Three-quarters of the semiconductor chips in the world are manufactured in the Asia-Pacific regions, in particular in Taiwan, South Korea, and China (Irwin-Hunt, 2021).

On the other hand, the COVID-19 pandemic further exposed the extent to which the supply chains of many key products, including pharmaceuticals and personal protective equipment, are highly concentrated in Asia (Donnan, Rauwald, Deaux & King, 2020; EIU, 2021; Serhan, & Gilsinan, 2020). For example, China made half of the world's masks before the coronavirus emerged and has since ramped up the production multifold (Bradsher & Alderman 2020). Southeast Asia dominates the global market for medical gloves, with Malaysia alone supplying nearly 60% of the North American market (Tognini, 2021). For many in the West, the pandemic has highlighted the risk of this supply chain structure and ignited a desire to rethink this model (Donnan, et al., 2020; Winter, 2020). This changing perspective is likely to lead to much future uncertainty in the Asia-Pacific region.

Given these new developments, governments and firms in the Asia-Pacific region must build on their decades of stunning success and recalibrate their outlooks and strategies to adapt to the seismic shifts. This recalibration is already under way in the Asia-Pacific region resulting in major transformations in the region, some of which are outlined in the next section.

1.3 A Transformed Asia-Pacific Region

The broad economic, geopolitical, and demographic forces described above are driving profound transformation in the Asia-Pacific region. We will now examine these transformations from three perspectives.

1.3.1 *Asia as the World's Manufacturing Center*

Despite the historical suspicion and acrimony among Asian countries as a result of wars, people of the Asia-Pacific region have forged resilient ties through trade and migration for centuries (Khanna, 2019). In recent years, these ties have evolved into massive webs of production networks that span the entire region. Numerous products consumed around the world are primarily made in the Asia-Pacific region, including not only labor-intensive, low value-added products such as textiles and garments (WTO, 2020), but also sophisticated products such as automobiles (OICA, 2020), cargo ships (UNCTAD Stat, 2020), solar panels (IEA-PVPS, 2020), lithium-ion batteries (Willuhn, 2020), and semiconductor chips (TrendForce, 2021). Churning out 45% of the entire planet's manufacturing output (World Bank, 2021c), the Asia-Pacific region is clearly the most important global manufacturing hub, and the accolade of Factory Asia is fully deserved (see Fig. 1.2).

As indicated in Fig. 1.2, China currently accounts for 28% of the global manufacturing output, double that of the rest of the Asia-Pacific economies combined. The US–China trade rift thus creates both havoc and opportunity for the region as substantial evidence suggests that supply chain dislocation from China is indeed

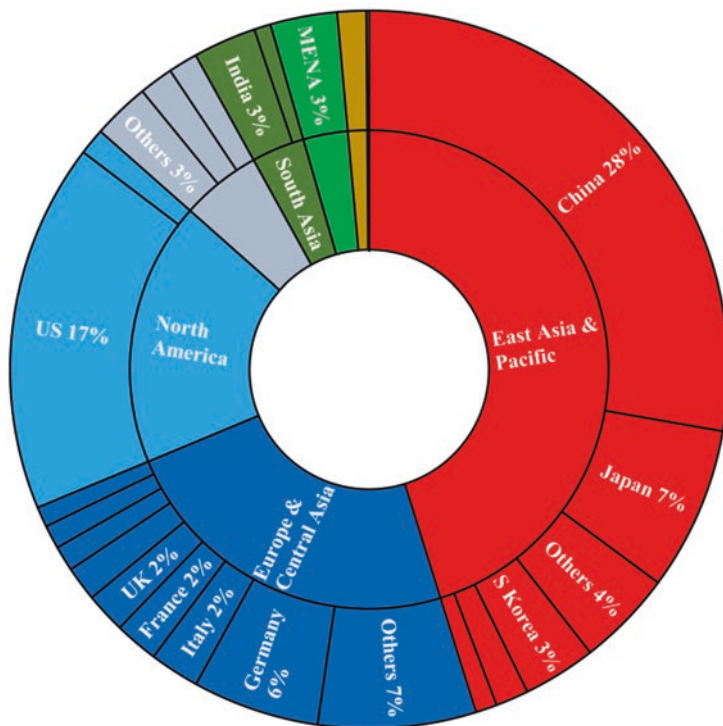


Fig. 1.2 Share of global manufacturing output (current US\$) by country/region in 2018. *Source:* Based on data from the World Bank. 2021. Manufacturing, value-added (current US\$). https://data.worldbank.org/indicator/NV.IND.MANF.CD?most_recent_value_desc=true

taking place (Wolf, 2020). A survey by Gartner, a global research and advisory firm, reveals that one-third of leading supply chain firms have either moved some of their operations out of China or plan to do so by 2023 (Gartner, 2020). Businesses that are involved in manufacturing labor-intensive products in China are particularly jittery, not only because of the US tariffs but also because of the rapidly rising labor costs in China, due to its shrinking working-age population (Obe, 2019, 2021). However, a recently released report by the Economist Intelligence Unit does not forecast significant supply chain reshoring to the United States anytime soon (EIU, 2021). Rather, businesses are far more likely to move their factories from China to Southeast Asia. For many lower- and middle-income ASEAN countries—such as Vietnam, Cambodia, Thailand, and Malaysia, which have to date been somewhat overshadowed by China’s size and efficiency—this US–China trade rift creates

great business opportunities (Pananond, 2019). Indeed, in 2019 ASEAN member countries received US\$177 billion foreign direct investment, breaking the region's 2018 record of US\$155 billion (Rouhneen, 2020).

Experts caution, however, that exporters are unlikely to be able to cut China completely out of their supply chain for two main reasons. First, unlike China, many of the ASEAN countries do not have high-capacity deep-sea ports that can handle the largest ships for direct transportation to major markets. Second, over the past few decades, China has built broad and deep networks of suppliers for numerous products, which are impossible for the ASEAN countries to duplicate at least in the near term (Serhan & Gilsinan, 2020; Shih, 2020). These supply networks are a key reason, for example, why American bike makers—such as Kent, which recently moved its factories out of China to avoid the Trump tariffs—chose Cambodia as their new factory locations. Bike assembly plants located in Cambodia, which shares a border with China, can rely on parts and components transported across the border from China (Singh, 2020). For the same reason, many consumer electronics exporters have moved from China to Vietnam, which is also adjacent to China. For example, China-based GoerTek and Luxshure, both of which assemble Apple's AirPods, have now begun making the popular Apple product in Vietnam (Cheng & Li, 2020). Yet, the fact that the combined population of Vietnam, Thailand, and Malaysia is less than 200 million, compounded by fertility rates in all three of these nations currently below the population replacement rate, will strain labor supply in Asia in the future.

It is in China, however, that the pressure of a shrinking working-age population and rapidly rising labor costs is felt most keenly. It should not be surprising, therefore, that the Chinese market for industrial robots has been the world's largest since 2013 and quadrupled in size in 5 years. By 2018, China accounted for 36% of total worldwide installations of industrial robots. This is excellent news for Japanese makers of industrial robots such as Fanuc, Yaskawa, and Kawasaki. Together, these Japanese firms are responsible for at least 60% of the installed industrial robots worldwide (Foster, 2020).

At the same time, it seems that China has further consolidated its position as a supplier of increasingly sophisticated products and their parts and components despite the uncertainty it faces as a result of trade spat with the United States. For example, Apple actually increased its component sourcing from Chinese firms in 2021 (Cheng & Li, 2021). China also made massive investments in the entire supply chains of electric vehicles and lithium-ion batteries in recent years. As a result, it has surpassed both Japan and South Korea in the lithium-ion battery supply chain, with the latter two countries ranking second and third (Bloomberg NEF, 2020). However, it is speculated that Toyota Motor, the world's largest automaker, may in a few years launch the first vehicle powered by solid-state battery, which will be more stable and faster to charge than the lithium-ion batteries used in electric vehicles today (Sugiura, 2021).

Overall, according to the EIU's recent estimates (EIU, 2021), both China's and ASEAN's share of global exports are poised to rise between now and 2025. Furthermore, because China is the largest market for many categories of consumer

products, international firms appear to remain committed to manufacturing locally to sell in this massive, rapidly expanding, and, in many ways, very sophisticated market, a topic on which we will elaborate in the next section.

1.3.2 *Asia as a Thriving Consumer Market*

1.3.2.1 **Growing Consumer Market**

Japan and the Four Asian Tigers are already high-income Asian economies with robust consumption on par with advanced Western economies. However, with the exception of Japan, these high-income Asian economies are relatively small population-wise, with Singapore and Hong Kong each being the size of a city. Therefore, the impact of Asian consumers has not been particularly visible internationally until this decade when rising incomes in China and ASEAN, which have a combined population of over 2 billion, have created a massive consumption boom. This boom will continue, according to data published by McKinsey (an American worldwide management consultancy). The data shows that consumers in the Asia-Pacific region are expected to account for over 40% of global consumption growth between 2015 and 2030 (see Fig. 1.3) (Tonby, Woetzel, Choi, Seong & Wang, 2019). While part of that growth is propelled by an ever-larger swath of the population escaping abject poverty and gaining disposable income for basic mass-market merchandise, consumption upgrade is also rapidly occurring at the same time. As illustrated in Fig. 1.4, in 2018, Asians spent about €140 billion (approximately US\$165 billion) on personal luxury goods, nearly 55% of total spending in this category worldwide. By 2025, about 60% of the global consumption of personal luxury goods will be by Asians, which translates to a total spending in this category of about €200 billion (Approximately US\$240 billion) (D'Arpizio, Levato, Prete, Del Fabbro, & de Montgolfier, 2019). Looking at these numbers, it is fair to say that the renowned “factory Asia” has indeed given birth to a booming “market Asia.”

Based on Figs. 1.3 and 1.4, it is also clear that China is a massive driver behind the Asian consumption boom, at least at the present and for the next decade. More specifically, China is predicted to make up more than 30% of global consumption growth between 2015 and 2030 (see Fig. 1.3). Furthermore, 46% of the global consumption of personal luxury by 2025 is forecast to be by Chinese consumers, up from 33% in 2018 (see Fig. 1.4). In the automobile sector, for example, China—the world’s largest automobile market—absorbs 40% of the Volkswagen Group global car sales. China is also the largest market for BMW and Mercedes-Benz (*The Economist*, 2021a; OICA, 2020). Noah Barkin of the Rhodium Group research firm believes, “China is the present and the future of German carmakers” (*The Economist*, 2021a: 59). Most ironically, given former President Trump’s tweet in 2019 ordering US companies to “immediately start looking for an alternative to China” (Breuniger, 2019), American automaker General Motor sells more cars in China than in its home country (Wagner, 2021).

■ Asia-Pacific ■ Americas ■ Europe ■ South Asia ■ Middle East ■ Africa ■ Oceania

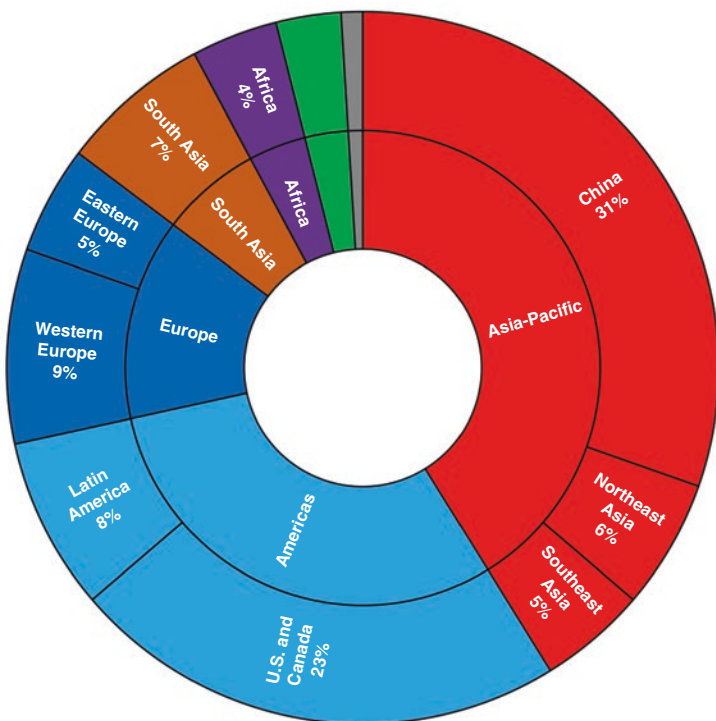


Fig. 1.3 Share of global urban consumption growth, 2015–30, by country/region. *Source:* Based on information from Tonby, O., Woetzel, J., Choi, W., Seong, J., Wang, P. 2019. Asia’s future is now. *McKinsey Global Institute*, July. <https://www.mckinsey.com/featured-insights/asia-pacific/asias-future-is-now> (Accessed: 11 June 2021)

For many multinationals, the Chinese market is indispensable to their survival. Unsurprisingly, these companies choose to keep their production in China to compete more effectively in that market, despite the fact that this action often runs counter to the wishes of their governments. Not only has Washington tried to persuade American multinationals to divert their manufacturing supply chain from China but it has also pressured the governments of its allies, including Japan, to do the same. However, according to a survey in September 2020 by JETRO, a non-profit trade promotion organization funded by the Japanese government, only 7.2% of Japanese firms operating in China were ceasing or planning to cease production in China. “I don’t think that the Japanese manufacturing industry could survive globally without being present in a market as big as China’s,” says Homma Tetsuro, CEO of Panasonic’s In-house China & Northeast Asia Company (Obe, 2021). Likewise, Japan’s largest cosmetic brand, Shiseido, well-established internationally, is also doubling down on the Chinese market. In 2019, the firm made 55% of its sales outside its home country, of which China accounted for the largest share. Shiseido also

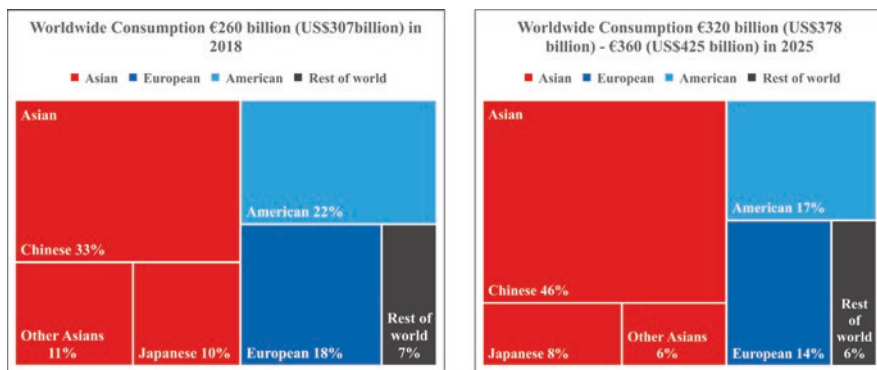


Fig. 1.4 Estimated share of the personal luxury goods consumption worldwide by consumer nationality in 2018 and 2025. *Source:* D'Arpizio, C., Levato, F., Prete, F., Del Fabbro, E., & de Montgolfier, J. 2019. The future of luxury: A look into tomorrow to understand today. *Bain & Company*, January 10. <https://www.bain.com/insights/luxury-goods-worldwide-market-study-fall-winter-2018/>

recently became the first global cosmetic firm to open a research and development center in Shanghai's Oriental Beauty Valley, and formed a partnership with e-commerce Chinese giant Alibaba to better promote the brand in China (Shibata et al. 2021). These Japanese firms certainly hope that their bets on China are as wise as that of another Japanese firm, Softbank, whose founder and CEO Masayoshi Son took a chance in 2000 on then little known Chinese startup—Alibaba—with an investment of US\$20 million. Today, Softbank's 25% stake in Alibaba is worth US\$150 billion (The Economist, 2021b).

China has also attracted ASEAN investments. Thailand's largest conglomerate—the Charoen Pokphand Group (the CP Group)—is among the first foreign firms to enter the Chinese market. Today, the firm obtains 40% of its US\$68 billion in annual revenue from its Chinese subsidiaries—ranging from animal-feed factories to shopping malls and supermarkets—and holds a big stake in the Chinese technology and insurance giant, Ping An (The Economist, 2020). The government of Singapore has formed a 50–50 joint venture with the Chinese government to build the Guangzhou Knowledge City, which, when complete, will cover 50 miles² and house half a million inhabitants in China's Greater Bay Area, which encompasses Hong Kong, Macau, Shenzhen, Guangzhou, and other nearby cities (Lim, 2018; Saïdi, 2019).

The global impact of Chinese consumers is also felt in international tourism. In 2018, prior to the COVID-19 outbreak, Chinese tourists spent US\$277 billion overseas, accounting for approximately one-fifth of all international tourism spending. The spending by Chinese outbound tourists is likely to recover and rise further, post COVID-19, given that only 10% of the Chinese population has to date travelled internationally. It is estimated that this percentage will double by 2027, translating to a total of 300 million Chinese citizens with passports by that date (McCarthy, 2019).

However, the boom in consumer spending is taking place across the Asia-Pacific region beyond China. For this reason, South Korean skincare and cosmetics firms,

riding the popularity of the Korean Wave (*Hallyu*) in ASEAN (Choon, 2019), invest heavily in promoting products in the region, including in Indonesia, Philippines, and Vietnam. In Indonesia, Sulwhasoo, the premium skincare line by the largest K-beauty firm, Amorepacific, is now capturing market shares from American and French premium brands (“Future of Consumption in Fast-Growth Consumer Markets: ASEAN,” 2020).

The ASEAN market is important also for Chinese firms which face intense competition in their domestic market and anticipate eventual declining growth in that market given the demographic trend. Chinese smartphone brands Oppo, Xiaomi, and Vivo, for example, are taking over the lead from Samsung and Apple in the region, with market shares ranging from 57% in the Philippines to 74% in Indonesia in 2019 (“Future of Consumption in Fast-Growth Consumer Markets: ASEAN,” 2020; *South China Morning Post*, 2019). In the automobile sector, China’s largest carmaker, SAIC, formed a partnership with Thailand’s CP Group to manufacture cars in Thailand and challenge Japanese automakers’ dominance in the ASEAN market. Currently, the SAIC-CP plant is making MG sports cars and pickups, a British brand now owned by SAIC, and the partners are committed to jointly begin making electric vehicles in the near future (Muramatsu & Suzuki, 2019; *The Economist*, 2020).

1.3.2.2 Increasing Consumer Market Digitalization

The Asia-Pacific region has emerged as a hotbed for consumer-driven, tech-enabled innovations. The digital economy—which broadly includes e-commerce, ride hailing and food delivery, and fintech—is trending in the Asia-Pacific region. With respect to e-commerce, the Asia-Pacific region, according to one estimate, makes up 62.6% of the total global revenue (Oberlo, 2021). This growth is driven by good-to-outstanding, and rapidly improving, mobile internet connectivity, as well as by declining costs of mobile phones and mobile internet subscriptions across the region (Devanesan, 2020; GSMA, 2019).

In 2021, China’s e-commerce sales of nearly US\$2.8 trillion accounts for over half of all e-commerce sales worldwide (Oberlo, 2021), and more than 50% of the country’s total retail sales, a global historical first (Cramer-Flood, 2021). China’s e-commerce market is not only massive, but also hyper-competitive and dynamic, enhanced by the ubiquitous acceptance of mobile payments, AI-driven logistic and delivery services, and livestreaming-enabled social commerce (*The Economist*, 2021c). Alibaba’s Singles Day sales events that take place on November 11 every year are filled with exhilarating livestreaming commercials hosted by influencers, during which exclusive discounts are offered. Appearances by international stars, such as Taylor Swift, Mariah Carey, and Kim Kardashian, are also huge attractions (Kharpal, 2019). In 2019, Alibaba’s Singles Day sales reached US\$38.4 billion, selling more than half of what Amazon sells in an entire quarter in just 24 hours (Klebnikov, 2019).

E-commerce quickly became serious business during the 2020 Covid-19 lockdowns in Wuhan and surrounding areas in the Hubei Province. China's e-commerce giants came through for their customers by keeping supplies flowing and adding new crucial services during the most difficult circumstances. For example, [JD.com](#) used remote-operated driverless smart vehicles to deliver critical supplies and groceries without the deployment of personnel within the lockdown parameters, a task made easier because of the deserted streets. Alibaba and [JD.com](#)'s respective grocery-delivery subsidiaries, Freshippo and 7Fresh, coped with the surge of orders by hiring suddenly unemployed workers from the shuttered restaurant industry. Turning crisis into opportunity, 7Fresh expanded their semi-processed, ready-to-cook offerings by leveraging the talent of newly hired, temporary workers from the restaurant industry. These e-commerce firms' fast, on-the-fly innovations demonstrated their logistic capability and operational competence, expanded their reach, and garnered goodwill (Lin, 2020).

Japan and South Korea's e-commerce sales at US\$144 billion and US\$120 billion, respectively, rank fourth and fifth worldwide after China, the United States, and the United Kingdom (Oberlo, 2021). However, if factoring in the fact the population of Japan is nearly 2.5 times that of South Korea, e-commerce is far more prevalent in South Korea than in Japan on a per capita basis or as a percentage of GDP. In fact, e-commerce's share of total retail sales in South Korea is at nearly 30%, which places it second only to China in terms of e-commerce penetration (Cramer-Flood, 2021). This uptake of e-commerce in South Korea is not surprising given that it had an internet penetration rate of 95.1% in 2017, one of the highest in the world, and its population is both highly educated and tech-savvy (Eriksson, Matheson, Pitt, Plangger & Robson, 2019). South Korea also resembles China in the way e-commerce is conducted, with the prevalence of mobile payment, influencer marketing, efficient product delivery, and special-holiday shopping events (Eriksson et al., 2019). Hailed as South Korea's Amazon, South Korean e-commerce giant Coupang offers free-next-day delivery service, known as the "Rocket Delivery," and is soaring in popularity in its home market (Baek, 2019). In June 2021, Coupang, backed by capital injection from Japan's Softbank, made its first international foray in Japan to compete with Rakuten and Amazon Japan (Jennings, 2021).

Unlike Japan, whose population is already very grey, or South Korea and China, whose population is rapidly aging, in ASEAN countries, Millennials, and Gen Zs—who are digital natives—will account for 75% of the consumer population by 2030. Internet connectivity is also expected to improve drastically in the ASEAN region ("Future of consumption in fast-growth consumer markets: ASEAN" 2020). Therefore, in ASEAN countries, the digital economy, while currently still in its early stages, is showing great potential. Figure 1.5 charts the forecasted growth of e-commerce between 2019 and 2025 among six of the ASEAN economies, all of which are poised for rapid growth. In Indonesia, the Asia-Pacific region's third largest economy with a population of 275 million, e-commerce sales reached US\$21 billion in 2019. This figure is predicted to hit US\$83 billion by 2025, which will amount to over 50% of the entire e-commerce market in the ASEAN region (Statista

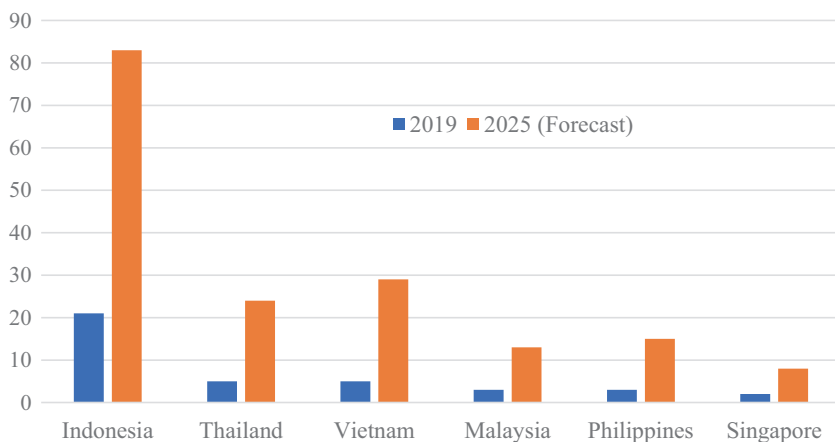


Fig. 1.5 Retail e-commerce market in Southeast Asia, 2019 and 2025 (forecast), by country (in billion US\$). *Source:* Based on data from Statista Research Department. 2021. E-commerce market volume SEA 2019-2025 by country. *Statista*, March 29. <https://www.statista.com/statistics/647645/southeast-asia-ecommerce-market-size-country/>

Research Department, 2021a). The ride-hailing market in ASEAN countries, which includes online transport and food delivery, at approximately US\$11 billion in 2020, is expected to reach US\$42 billion by 2025 (Statista Research Department, 2021c). Along with e-commerce and ride hailing comes the necessity of digital payment. In the ASEAN region, digital payments stood at US\$600 billion in gross transaction value in 2019; the same figure is predicted to exceed US\$1 trillion by 2025. Broadly, fintech is also expected to rise sharply in the ASEAN region, given that over 70% of adults in the region are currently unbanked or underbanked. The fintech industry in the ASEAN region is presently estimated to be worth US\$11 billion and could reach US\$60 billion by 2025 (“Fulfilling its promise,” 2019). Given all this potential, ASEAN countries have become home to innovative digital startups, as will be discussed in the next section.

1.3.3 Asia as a Leading Hub for Innovation

The Asia-Pacific region also claims a growing collection of world-class firms, with over 40% of those included in the 2020 Fortune Global 500 list now calling the region home (Fortune, 2020) (see Fig. 1.6). The Asia-Pacific region is also beginning to shed its “all brawn and no brain” image of being where many products are manufactured but few great innovations or impactful brands are created (The Economist, 2014). In fact, the region is becoming a hotbed for innovation; as of April 2021, more than 25% of all unicorns (privately held startup companies with a

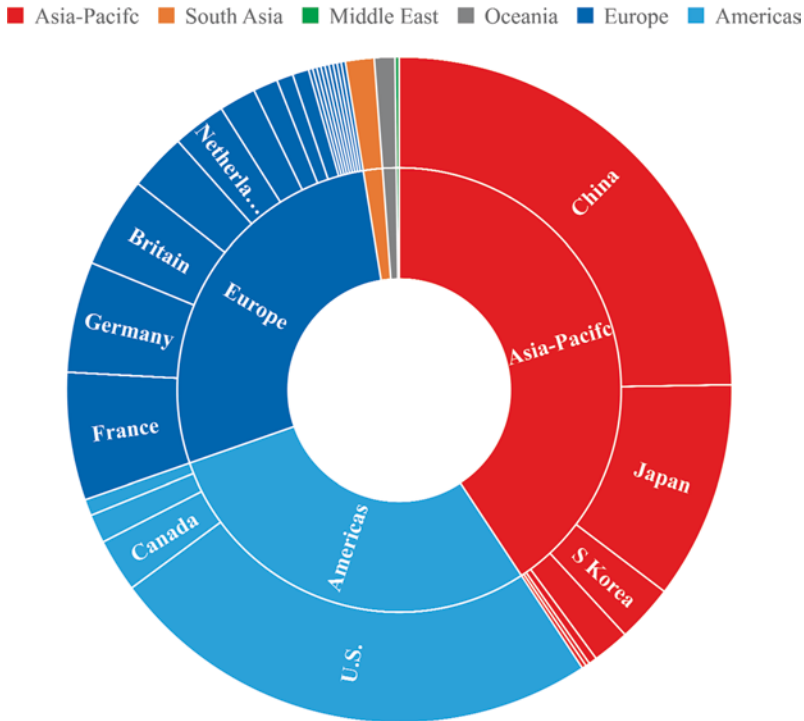


Fig. 1.6 Fortune global 500 by country/region, 2020. *Source:* Based on information from Fortune 2020. Global 500. <https://fortune.com/global500/2020/search/?sector=Technology>

value of over US\$1 billion) worldwide have been incubated in the Asia-Pacific region (Rudden, 2021) (see Fig. 1.7).

There have been notable changes in the types of firms that have flourished in the Asia-Pacific region in recent years. Contract manufacturing firms, such as Taiwan-based Foxconn, Quanta, and Pegatron; as well as sourcing and/or supply chain management firms, such as the now embattled Hong Kong-based Li & Fung, played pivotal roles in knitting together the supply chains that have formed factory Asia. Today, however, many successful firms in the Asia-Pacific region have built global and regional reputations in their own right. In addition to the established firms from Japan and South Korea, such as Toyota and Samsung, and from China, such as Lenovo, there has been a flurry of recent creations born of innovations driven by the needs of Asian consumers. Most prominently are digital technology firms from China, include e-commerce firms Alibaba and JD.com, the ride-hailing app Didi, the food delivery apps of Meituan and Ele.me, the home-sharing platform Tujia, online travel booking sites Ctrip and eLong.com, fintech firm Ant Financial, and social media platforms Weibo, WeChat, and Tiktok.

A dynamic group of startups has also emerged recently in the ASEAN region, which has helped to fire up the region's digital economy. Grab, a Singapore-based

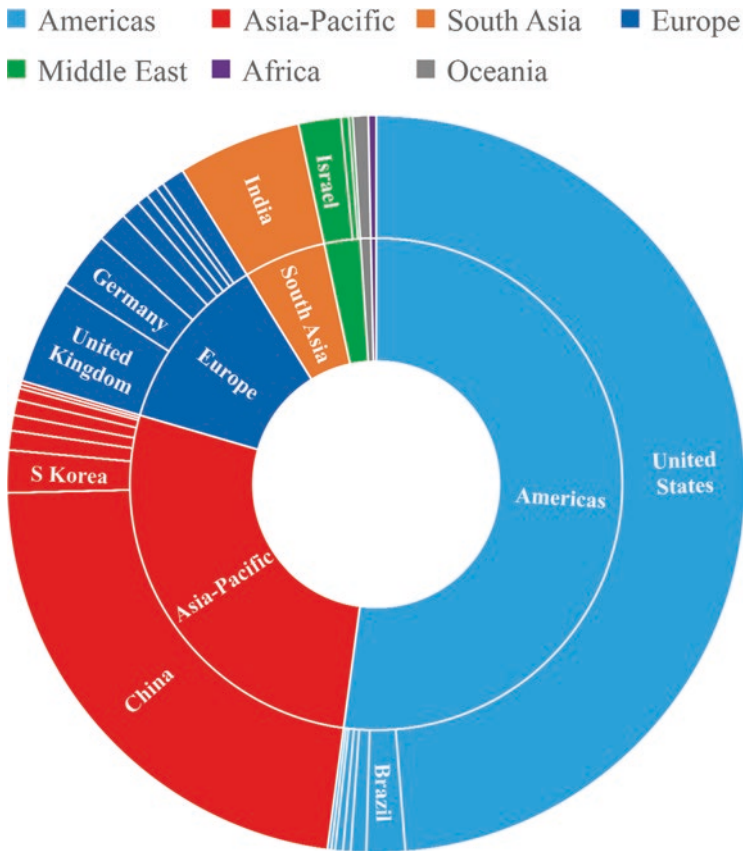


Fig. 1.7 Number of unicorns worldwide as of April 2021, by country. *Source:* Based on information from Rudden, J. 2021. Number of unicorns worldwide, by country. *Statista*, April 23. Retrieved June 11, 2021, from <https://www.statista.com/statistics/1096928/number-of-global-unicorns-by-country/>

unicorn—which started as a ride-hailing app and pushed Uber out of Southeast Asia—has now expanded its business to food delivery and digital payment across the ASEAN region. Grab’s arch-rival and Indonesia-based based GoJek recently merged with Indonesian e-commerce firm Tokopedia to form GoTo, a super-app to compete across the ASEAN region. Singapore-based SEA, an internet platform that provides digital entertainment, e-commerce, and fintech services, is also competing for domination in the ASEAN region (Tanaka, 2021). The growth of these startups in ASEAN is also accelerated by the massive infusion of venture capital from other parts of the Asia-Pacific region. For example, ASEAN’s top e-commerce app, Shopee, a part of Singapore’s SEA, is backed by Tencent; while ASEAN’s second most popular e-commerce app, Lazada, is a subsidiary of Alibaba (Chen, 2021; Tanaka, 2021). In fact, China’s tech giants have provided the lion’s share of the surging venture capital investment in ASEAN, according to British multinational

investment bank HSBC (“What’s next for China’s tech investment into ASEAN,” 2019). Japan’s Softbank, with stakes in both Grab and Tokopedia among many others, is also a significant investor in ASEAN’s startups (Iwamoto, 2021). In June 2021, it made further funding commitment in the region by leading a new round of funding for Singapore’s online car sales platform Carro, which is planning to scale up its presence across Singapore, Indonesia, Thailand, and Malaysia (Loh, 2021).

Much of Asian innovation is fueled by the technological advancement in areas such as mobile devices, internet access, autonomous vehicles, and algorithms, all of which depend on semiconductor chips. In this area, Taiwan, South Korea, and Japan are the clear leaders, both within the region and around the world. Taiwan and South Korea are home to the world’s largest semiconductor chip manufacturers, including Taiwan Semiconductor Manufacturing Company (TSMC) and Samsung (Kim, 2021). However, these firms ultimately need semiconductor manufacturing equipment (SME) and raw chemical materials for chip fabrication. Japan, along with the United States and the Netherlands, dominates the global market share in SME. The primary and most complex input in the construction of chip factories, SME accounts for about 80% of the construction costs (Glosserman, 2020). Japan is also a world leader in the chemicals that are crucial for making semiconductor chips, producing around 90% of the world’s supply of fluorinated polyimide and resists, and about 70% of hydrogen fluoride (Lee, 2019). Japanese producers of key chemical raw materials, including Tokyo Ohka Kogyo, Daikin Industries, Shin-Etsu Chemical, and Showa Denko Materials, have stepped up their investment in Taiwan and South Korea, the leading chip makers (Nikkei Asia, 2021). South Korea and Japan are also leading suppliers for other advanced components for electronics gears. For instance, Samsung dominates the smartphone display panel market, with 50% of the market share (Business Wire, 2021). Meanwhile, Sony is both a forerunner in imaging sensor technology (Vincent, 2020) and a key supplier of cameras for smartphones, with 46% of the global market, although Samsung is gaining on it (Gray, 2021).

This overview of the new developments in the Asia-Pacific region demonstrates that, while remaining an irreplaceable global manufacturing hub, the region is also shaping up to be an exciting center of commerce and a hotbed for innovation. Asia-Pacific firms’ capacity to innovate and to seek opportunities beyond their national boundaries, both within and beyond Asia, bodes well for the region’s future despite the economic and political disturbances that are likely to intensify with US–China rivalry and rapid demographic change.

Despite the growing importance of the Asia-Pacific region documented above, international business research is still confined to the traditional approach of country-specific analysis. Since the late 1990s, there has been a great deal of research on individual countries such as China, Japan, South Korea, Malaysia, Thailand, and Vietnam. In contrast, there has been little research taking a region-wide perspective on the newly transformed Asia of the twenty-first century, a region that now thrives not only as manufacturing hubs, but also as interconnected consumer markets and dynamic centers of innovation. As such, there is a need to develop a new research focus on international business with special reference to the fast changing Asia-Pacific region. Aiming to make a major contribution to capturing

these new developments, this book explores contemporary challenges, business practices, and emerging issues in the new Asia. The next section summarizes the 12 chapters presented in this book. The last section concludes with a summary.

1.4 Organization of the Book

This book is organized into 12 chapters. Part 1 (Chap. 1) is the introduction to the book, which focuses on the Asia-Pacific region as the new center of gravity for international business and summarizes the main contributions made in each chapter. Part 2 (Chaps. 2, 3, 4, and 5) discusses the changing business environment of the new Asia; Part 3 (Chaps. 6, 7, 8, 9, 10, and 11) discusses Asian firms' business strategy in the new century; and Part 4 (Chap. 12) provides a review and analysis of the current state of international business research concerning the Asia-Pacific region.

Part 2 begins with Chap. 2, which addresses the changing business environment in the Asia-Pacific region amid the growing strategic rivalry between the United States and China. It is evident that US–China relations have devolved over the past four decades from a coexistence level of mutual trust and cooperative engagement to a crisis level of growing suspicion and rival competition. The significant trend that will have a global impact is the strategic competition between the two countries on both economic and technological fronts. China and the United States are currently engaged in multiple areas of economic dispute, including advanced manufacturing, supply chains, and technology. The result is a new, fractured world order that is impacting the international business landscape not only in Asia, but also around the globe.

Chapter 3 examines the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) from both economic and geopolitical perspectives. The CPTPP is a modified version of the original Trans-Pacific Partnership (TPP) that was negotiated by 12 member countries, including the United States. However, the election of Donald Trump to the US presidency in 2016 has effectively changed the direction of US trade policies. The United States decided to withdraw from the TPP, and, to salvage the trade deal, all remaining members agreed to forge ahead with this trade bloc to form the CPTPP. This study presents four possible future scenarios for the CPTPP in the face of increasing global protectionism.

Chapter 4 examines the impact of demographic change on the Asia-Pacific labor market, with a special reference to Japan. Japan is facing a severe labor shortage caused by a sustained low birth rate and rapidly aging population. It is clear that Japan's economic strength can be substantially weakened by a demographically driven labor shortage. This chapter proposes three key strategies to address Japan's labor shortage: promotion of women's participation in the labor market, extension of working age of the elderly, and recruitment of foreign guest workers. Using extensive sources in both the English and Japanese languages, the feasibility and effectiveness of each strategy is systematically evaluated. The Japanese experience

discussed in this chapter offers a unique opportunity for other Asian countries to gain valuable insight into coping with demographic challenges.

In the final chapter (Chap. 5) of this part, the differences between East Asian and North American cultures are examined using the cultural psychological concepts of self-construals and thinking styles. The chapter then explores how such cultural differences affect workplace management, marketing strategy, information exchange, and investment decisions in the two regions. Given the importance of the Chinese and the Japanese consumer markets, the fascinating examples of successful marketing strategies in these two markets by Western firms such as Starbucks, Nestlé, Coca Cola, McDonald's, Olay, and Aflac are especially instructive. Overall, the findings presented in this chapter provide interesting insights into the importance of cross-cultural knowledge for doing business in the Asia-Pacific region.

The third part of this book—focusing on Asian firms' business strategy in the new century—begins with Chap. 6, which analyzes the broad and pivotal roles of the Taiwanese electronics industry in the global electronics supply chain, both in the labor-intensive and capital-intensive segments. The Taiwanese electronics industry's roles in both of these segments are examined by focusing on two Taiwanese giants, Foxconn and TSMC, the former being an example in the labor-intensive segment of the supply chain, while the latter is an example of the capital-intensive segment. The chapter captures the two focal firms' respective "playbooks" that have led to their success and explores the emerging challenges they face—especially the US–China strategic rivalry—and their strategic responses to these challenges.

Chapter 7 shines a spotlight on Japan and contemplates the use of cross-border e-commerce (CBEC) by Japanese sake breweries to export their products to the global market. The internet has revolutionized international business, allowing online retailers and shoppers to virtually conduct business transactions across national borders. The CBEC creates opportunities for Japanese sake breweries, mostly small- and medium-sized enterprises (SMEs), to engage in exporting in the face of declining domestic demand in Japan. In contrast, the global demand for sake has increased in recent years, spurred by the growing popularity of Japanese cuisine worldwide. In order to ascertain the right choice of an e-commerce platform, Japanese sake breweries are likely to compare the operating fees of various online retailers. Simulations are conducted to compare four e-commerce platforms (Amazon, eBay, Tmall Global, and Rakuten) in terms of operating fees. The analysis reveals that a Japanese SME might choose both Amazon and eBay in the global marketplace. However, Tmall is clearly advantageous in the Chinese market due to its popularity with a high market share in the country.

Based on a sample of 45 Chinese companies, Chapter 8 explores the strategies adopted by Chinese companies, often known as the "emerging dragons", for overseas expansion. Five key strategic patterns emerge from the analysis: market dominators, export clusters, technology innovators, culture carriers, and overseas financial investment and supply chain integrators. Following the PEST framework, this chapter discusses how the "emerging dragons" use each of the five broad strategies to capitalize on opportunities and avoid threats in uncertain foreign environments.

Chapter 9 turns to the fascinating topic of exporting South Korean pop music, or K-pop, in the midst of growing worldwide interest in Korean culture. The study analyzes how YG Entertainment, one of the largest in South Korea's entertainment industry, assesses and overcomes four types of distance between nations—namely, cultural distance, administrative distance, geographic distance, and economic distance—in approaching its key export markets of Japan, China, and the United States. Using vivid examples, the chapter details YG Entertainment's successful adoption of five core strategies: leveraging local market knowledge, balancing adaptation and authenticity, localization of production to mitigate political risk, balancing local responsiveness with global brand-building, and strategically diversifying into related and supporting industries.

Chapter 10 explores the intriguing phenomenon of *shanzhai* products, mostly observed in China. These products imitate global leading brands' design, function, and appearance, and adopt trademarks that are similar, yet not identical, to the brands they imitate. Because they are typically sold at much lower prices, *shanzhai* products are favored by many middle- and low-income consumers in emerging economies, especially when the *shanzhai* products contain genuinely innovative features. Furthermore, firms that start off specializing in *shanzhai* products may later gain the capacity to create entirely legitimate products that compete directly with the brands they originally imitate, even in developed markets. Therefore, the success of *shanzhai* products and the firms that make them presents a serious threat to the established business model of leading brands in the global consumer market. Of particular interest are the several recommended strategies for leading global brands to mitigate the threat of *shanzhai* products.

Chapter 11 addresses the topic of corporate social responsibility (CSR) of multinational corporations (MNCs) through an in-depth case study of a South Korean MNC in Thailand: Samsung-Electro Mechanics Thailand (SEMTHAI). The authors demonstrate that, by carrying out its CSR activities in ways that were perceived as authentic, involved the local employees, and were closely aligned with the values and expectations of Thai culture, SEMTHAI was able to build moral capital in Thailand that ultimately led to its business success and strong reputation in the country. Therefore, the study concludes, while CSR activities have been employed as strategic tools for many MNCs to enter, survive, and perform in new markets, CSR efforts must be localized in order to achieve the desired effects.

Chapter 12 forms the fourth part of this book, which provides an extensive review of the state of the art in international business research, with a specific focus on the Asia-Pacific region. Bibliographic coupling, content analysis, and cluster analysis methods are applied to all articles published in the top six IB journals from 2010–2019 to uncover the current state of, and emerging trends in, international business (IB) research that has a focus on the Asia-Pacific region. The results show that China is the most studied country, followed by India, South Korea, Vietnam, and Japan. Trend analysis is conducted to identify future research directions, which reveals the following key trending topics: emerging markets, institutional environment, and diverse aspects of doing business in emerging markets.

1.5 Conclusion

The Asia-Pacific region, sustaining more than four decades of rapid growth, has emerged as an economic force comparable in significance to North America and the Europe Union. The success of the Asia-Pacific economies, first led by Japan, followed by the Four Asian Tigers of South Korea, Taiwan, Hong Kong, and Singapore, and then by the Southeast Asian nations including Malaysia, Thailand, and Indonesia, has made the region the world's most important manufacturing hub. The economic rise of China, resulting from its manufacturing dominance and technological advancement of the last two decades, has further propelled a massive shift in the global economy's center of gravity away from the industrialized West to the Asia-Pacific region.

This book comprises a collection of articles written by scholars with expertise in a variety of academic disciplines. These studies cover economic, geopolitical, demographic, and cultural forces that shape the international business strategies in the Asia-Pacific region. The twenty-first century began with significant changes in demographic profiles in the Asia-Pacific region, accompanied by major developments in economic integration, the 2008 global financial crisis, international environment, technological competition, and the global pandemic. In response to these challenges, Asian governments and firms have systematically recalibrated their policies and strategies in their quest to thrive in this new global environment. This book provides a comprehensive and diverse analysis of the international business landscape in the New Asia that will be of interest to scholars, managers, politicians, and policy-makers alike.

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Part II
Changing Business Environment
in the New Asia

Chapter 2

The Changing Business Landscape in an Era of Growing US-China Strategic Rivalry



Joe Z. Shangguan and Gim S. Seow

2.1 Introduction

A prevailing theme on the world stage in the past four decades has been economic globalization, characterized by free trade, cross-border capital flows, internationalization of the supply and value chains, and worldwide application of new technologies. This tide of globalization has supported years of sustained economic growth. The world's gross domestic product (GDP) grew from US\$11.22 trillion in 1980 to US\$85.79 trillion in 2018 (The World Bank, 2019), despite several severe financial crises and economic recessions. Globalization has also shaped the landscape in which businesses operate, finance, invest, and compete. International trade and foreign direct investment have increased dramatically over the past four decades while economic integrations across borders have sharply deepened.

Globalization has also exerted another profound impact. Disparities in economic performances across regions and countries are reshuffling the world's economic order. According to the International Monetary Fund (IMF), advanced economies contributed 63.2% of the world GDP based on purchasing power parity in 1980, with the remaining 36.8% attributable to emerging markets and developing economies. However, these numbers have reversed to 42.5% and 57.5% by 2020 (Fig. 2.1; IMF, 2020a, 2020b).

As the most vibrant economic region, Asia was the biggest contributor to the world's economic growth, international trade, and foreign direct investment (FDI) as of the end of 2019 (World Trade Organization, hereinafter WTO, 2020a, 2020b;

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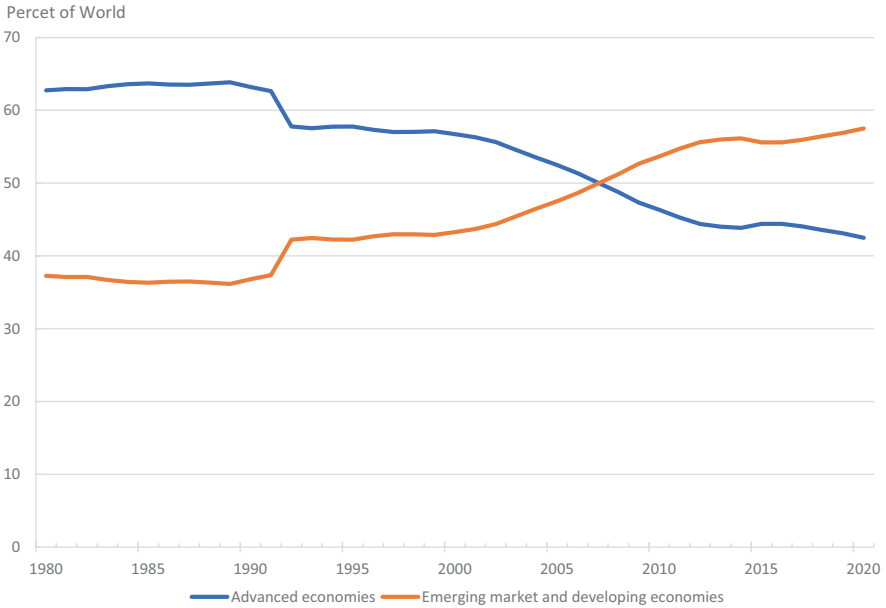


Fig. 2.1 Share of world GDP based on Purchase Power Parity (PPP) during 1980–2020: Advanced Economies vs. Emerging Market and Developing Economies. *Source:* International Monetary Fund. Accessed on January 31, 2021. <https://www.imf.org/external/datamapper/PPPSH@WEO/OEMDC/ADVEC/WEOWORLD>

United Nations Conference on Trade and Development, hereinafter UNCTAD, 2020). Among Asian countries, China has achieved the biggest success, rising from the 14th largest economy in 1980 to the second at present. The United States, while maintaining its status as the largest economy, has seen a decline in its share of the global economy. In 1980, China's GDP was only 10.6% of the United States. By 2020, the percentage has reached 71.4% (Fig. 2.2; IMF, 2020a, 2020b).

The reshuffling of world economic powers (e.g., Hoge Jr., 2004; Shambaugh, 2006; Nye Jr., 2011) and the ensuing complications such as trade imbalances, income inequality (Stiglitz, 2012), and the rise of populist politics (Rohac et al., 2018; Serhan, 2020) have prompted governments to reassess their roles in globalization. In particular, the United States, as the main advocate of globalization, has felt the need to change course. In addition, economic success has enabled China to grow its political influences in areas of important national interests to the United States such as the South China Sea region, creating tensions in recent US–China relations. Today, Washington increasingly sees Beijing as a strategic archrival and a threat to US dominance in the world, a view reflected in a series of national security-related reports (e.g., The White House, 2017). The US–China relations have entered a new era of strategic rivalry due to structural conflicts between an established power and a rising power (Allison, 2015, 2020).

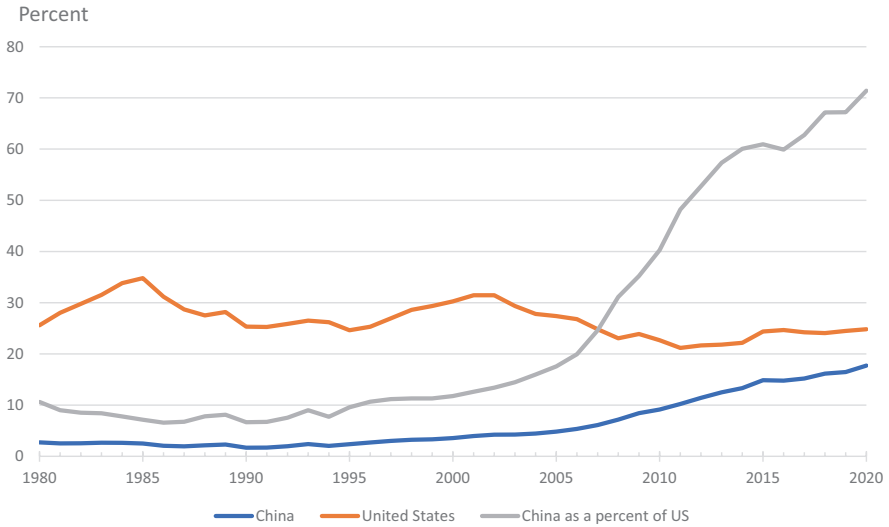


Fig. 2.2 Share of World GDP based on Current Prices during 1980–2020: China vs. United States. *Source:* International Monetary Fund. Accessed on January 31, 2021. <https://www.imf.org/external/datamapper/NGDPD@WEO/OEMDC/ADVEC/WEOWORLD>

Although it is unclear how the rivalry will evolve, the United States has been for years adjusting its strategies and taking some significant geopolitical and economic steps to address the challenge from China. On the other hand, China has also taken consequential measures and countermeasures. The dynamics between the two countries have profoundly changed the business landscape across the Asia-Pacific region and around the world.

This chapter intends to offer a view of the changing business landscape in a new era of US–China strategic rivalry. The remainder of the chapter is organized as follows. In the next section, we review the evolution of the US–China relations in the past four decades. We then provide a timeline of actions and policy measures undertaken by both the United States and China in recent years, highlighting the dynamics of their strategic competition on the economic and technological fronts. We also review the impact of US–China relations on the business landscape in the past. Next, we discuss how the current US–China strategic rivalry is reshaping the business landscape in the Asia-Pacific region for now and the near future. The last section concludes the chapter.

2.2 Evolution of US–CHINA Relations in the Past Four Decades

The US–China relations have gone through several ups and downs since the two nations reestablished formal diplomacy in 1979, which coincided with China's far-reaching decision to reform and open up to foreign investment.

During 1979–1989, the two countries enjoyed close ties and extensive cooperation. This period also marked the beginning of China’s economic ascent.

In the early 1990s, the US–China relations took a sharp downturn following the Chinese government’s crackdown on the pro-democracy movement in Tiananmen and the fall of the Berlin Wall in 1989, and the ending of the Cold War in 1991. This deterioration did not last long, though. The two-term Clinton administration through 2001 adopted an engagement strategy in the hope of cultivating China’s economic reforms and middle class, which in turn would instigate political changes within the country (Broder, 1997; Goldman, 1995; Kamath, 1998). During this period, the US–China relations improved and sustained the tests of a series of incidents, the most significant of which was the US accidental bombing of the Chinese embassy in Belgrade in 1999 (Council on Foreign Relations, 2020).

After the 9/11 attack on US soil in 2001, the need for global cooperation in fighting common threats, most prominently, terrorism, helped deepen the ties between the United States and China. Economic integration between the two countries also strengthened, with China joining the WTO in 2001 (Wonacott, 2001). Since then, China has experienced exponential growth in international trade. It became the largest exporter by 2009 and the largest overall trading nation by 2013 (WTO, 2010; , 2014) and one of the top trade partners of the United States (U.S. Census Bureau, 2020). In the meantime, competition between the United States and China also intensified. Perceiving an increasingly assertive China in geopolitics, the United States adjusted its policy toward China. For example, the Bush administration changed its positioning of China from “strategic partner” to “strategic competitor” (Baum, 2001). The Obama administration, for its part, launched the “Pivot to Asia” initiative (Clinton, 2011) and the Trans-Pacific Partnership (TPP) as a means to counterbalance China’s economic influence in the Asia-Pacific region (Perlez, 2015).

The US–China relations took a dramatic downturn again under the Trump administration. The *2017 National Security Strategy of the United States of America* report (White House, 2017) labels China as a rival who “... seeks to displace the United States in the Indo-Pacific region, expand the reaches of its state-driven economic model, and reshape the region in its favor.” The 2020 United States Strategic Approach to The People’s Republic of China (White House, 2020) further articulates the economic challenges, challenges to American values, and security challenges posed by China. On July 23, 2020, Secretary Michael Pompeo (2020) delivered a speech that was widely viewed as an attempt to start a new cold war with China (Ross, 2020). While the speech has drawn mixed reactions (Kempe, 2020; Haass, 2020; Wright, 2020; Shinkman, 2020; Kazianis, 2020), it underscores the reality that US–China relations have entered a new era of strategic rivalry. Many believe that US–China relations will never return to its previous, less confrontational state (Kissinger, 2019).

2.3 Recent Actions and Policy Measures from Both Sides

To help better understand the evolution of US–China relations and the nature of the strategic competition between the United States and China, this section provides a timeline of some consequential actions and policy measures taken by both the United States and China in recent years. The strategic competition between the two countries is multi-dimensional, but the 2020 *United States Strategic Approach to The People’s Republic of China* lists economic challenges as the No. 1 threat from China. The timeline below focuses on the actions and measures with the most significant economic implications, which are the focus of this chapter.

December 2011

The United States announced “Pivot to Asia” policy (Clinton, 2011) which was widely perceived as part of the effort to confront China (Lieberthal, 2011; Green, 2016).

September–October 2013

China launched the “One Belt, One Road” initiative, seen by the United States as a move to expand China’s economic and political influence as well as a countermeasure against the US “Pivot to Asia” policy (Meltzer, 2017; Chatzky & McBride, 2020).

May 2015

China announced the “Made in China 2025” (MIC, 2025) plan aimed at comprehensively upgrading its manufacturing sector, promoting indigenous innovations, and achieving self-sufficiency in high-tech supplies. The plan identifies ten priority sectors (China State Council, 2015):

1. Next-generation information technology
2. High-end numerical control machinery and robotics
3. Aerospace and aviation equipment
4. Maritime engineering equipment
5. Advanced rail equipment
6. Energy-saving and new energy vehicles
7. Electrical equipment
8. New materials
9. Biomedicine and high-performance medical devices
10. Agricultural machinery and equipment

The MIC 2025 drew strong disapproval from the United States, seen by some as “the real existential threat to U.S. technological leadership” (Laskai, 2018). The initiative was also perceived as China’s effort to leverage the power of the state to alter competitive dynamics and put China in a head-to-head competition for market shares against other industrialized countries (U.S. Chamber of Commerce, 2017).

May 2016

Asia Infrastructure Investment Bank (AIIB) was established. The United States opposed the creation of AIIB and lobbied its allies against joining AIIB (Perlez, 2015).

December 2017

The United States released the 2017 *National Security Strategy of the United States of America* (NSS) report. The report defines China as a revisionist power and an adversary attempting to erode American security and prosperity (The White House, 2017).

March 2018

The United States initiated what would become a trade war against China by imposing an initial round of tariffs on Chinese imports. Meanwhile, the Office of the US Trade Representative (2018) released the results of the Section 301 investigation into China's practices related to technology transfer, intellectual property, and innovation.

April 2018

US Commerce Department imposed a denial of export privileges against Zhongxing Telecommunications Equipment Corporation (ZTE) of Shenzhen, China, for its alleged misconducts involving selling equipment to Iran and North Korea. ZTE "may not, directly or indirectly, participate in any way in any transaction involving any commodity, software or technology ... exported or to be exported from the United States." (U.S. Department of Commerce, 2018). This sanction brought ZTE's operations to a total standstill due to its heavy reliance on American supplies. ZTE later settled with the Commerce Department by paying a US\$14 billion fine and reshuffling its board (U.S. Department of Commerce, 2018).

October 2018

The US Vice President Mike Pence delivered a hardline speech on the Trump administration's policy toward China, accusing China of economic and military aggression (Pence, 2018).

December 2018

Meng Wanzhou, the chief financial officer of Chinese telecom and electronics company Huawei Technologies Co., Ltd. (Huawei), a global leader in 5G technology, was arrested in Canada at the US's request. The United States charged Meng and Huawei with bank and wire fraud in violation of US sanctions on Iran (Sherlock & Bilefsky, 2020). The case of Meng's extradition to the United States is still being tried in the Canadian court as of the time of writing.

May 2019

The US Commerce Department Bureau of Industry and Security (BIS) added Huawei to the Entity List, citing Huawei's significant risk of involvement in activities contrary to the national security or foreign policy interests of the United States. The Entity List was later expanded at various times to include a substantial number of other Chinese firms and organizations. The United States has been campaigning to dissuade other countries from adopting Huawei's 5G technologies. The addition to the Entity List would subject Huawei and the other Chinese firms to "specific license requirements for the export, reexport and/or transfer (in-country) of specified items" (U.S. Department of Commerce, 2019, 2020, 2018a, 2018b, 2019).

December 2019

The Covid-19 pandemic broke out. The pandemic is still rampant in much of the world as of the time of writing, January 2021. The IMF (2020a, 2020b) projects that global economic growth will be minus 4.9% in 2020 and growth in the advanced economy group will be minus 8.0%. The pandemic is also prompting countries to reconsider their domestic and foreign policies. Global supply chains are being severely disrupted and will likely undergo fundamental reorganization.

February 2020

The Committee on Foreign Investment in the United States (CFIUS) exercised its full authority under FIRRMA to regulate investments in critical infrastructure and sensitive personal data. A set of new CFIUS rules would virtually halt Chinese acquisition and investment in the US technology sector. In August 2020, US Commerce Department issued new rules to prohibit any non-US companies from selling chips made using US technologies to Huawei without a special license (Strumpf & Ferek, 2020). This ruling has crippled certain lines of Huawei's business. For example, Huawei eventually had to sell its budget smartphone brand Honor in order to keep it alive (Nikkei Asia, 2020). It has also lost market share to competitors in both international and domestic high-end smartphone markets (Kharpal, 2020). Several countries, including the United Kingdom, Sweden, and the United States itself, have banned Huawei from participating in their 5G network constructions out of security concerns (Gramer, 2020).

July 2020

China adopted the "Double Circulations" economic strategy in response to the deteriorating global business environment due to the conflict with the United States and the Covid-19 pandemic. The strategy signals a structural shift to powering the country's future economic growth primarily through expanding domestic markets (i.e., internal circulation), while using international markets as a supplement (i.e., external circulation) (Liu, 2020). China has also put forth other significant policies to

counter the risk of US “decoupling” from China (Greeley, 2020; Witt, 2020; Scissors, 2020). Dubbed as a “linking strategy,” China has reformed its financial system to open up its financial markets more to foreign investors. It has lifted ownership caps on foreign securities, asset management, and insurance companies and allowed foreign payment companies to enter its payments industry. As a result, there has been a deepening involvement of US financial institutions in the Chinese financial markets since 2020 (The Economist, 2020).

November 2020

China, Japan, South Korea, Australia, New Zealand, and ten member countries of ASEAN signed the Regional Comprehensive Economic Partnership (RCEP) agreement to form the largest free-trade zone in the world. The agreement is expected to deepen economic integration in the Asia-Pacific region and “help further cement China’s image as the dominant economic power in its neighborhood” in light of the US exit in 2017 from the TPP, an agreement widely seen as a Washington-led response to China’s growing influence in the Asia-Pacific region (Bradsher & Swanson, 2020).

December 2020

China and the European Union (EU) concluded in principle the nearly 7-year long negotiations for a Comprehensive Agreement on Investment (CAI). With the agreement, which is yet to be ratified by both sides, China has committed to a greater market access for EU investors, including some important manufacturing and service sectors such as electric cars, health equipment, financial services, and healthcare. China has also committed to a better level-playing field for EU business with respect to such issues as disciplines for state-owned enterprises, transparency of subsidies, and rules against the forced transfer of technologies (European Union, 2021). The China–EU CAI is regarded by some as offering China an upper hand in the ongoing strategic competition with the United States (Fallon, 2021; Kuo, 2021).

2.4 The Impact of US–China Relations on Business Landscape: A Retrospective

Geopolitics shapes the environment in which businesses operate and compete on the world stage and influences the direction and progress of globalization. This section provides a historical perspective on US–China economic relations as influenced by geopolitics, which sets a background for discussing how the US–China strategic rivalry impacts current and future business landscape.

In the Cold War era, the confrontation between the United States and the Soviet Union camps engendered “half-globalization” whereby trade occurred mostly between countries within each camp. The normalization of US–China relations in

1979 and the subsequent integration of the Chinese economy with western market system fueled globalization and the flow of economic factors across borders. This trend, however, reversed course amid growing US–China tensions since the 2008 recession and especially during the ongoing COVID-19 pandemic. For example, Peterson Institute for International Economics (PIIE) finds that the Trade Openness Index, a globalization index defined as the sum of world exports and imports divided by world GDP, increased from 39.5% in 1980 to a peak of 61.1% in 2008, and then declined through 2017 (PIIE, 2020). In addition, according to the WTO world merchandise trade further declined by 3% in 2019 and was projected to plunge another 13–32% in 2020 (WTO, 2020a, 2020b).

Largely consistent with the evolution of geopolitics, economic ties between the United States and China have significantly increased since the 1980s, only to reverse after 2017. This reversal is reflected in three areas.

Trade. Compared to the minimal levels in the early 1980s, trading of goods and services between the United States and China totaled US\$737 billion in 2018. The United States exported US\$179 billion and imported US\$558 billion for a trade deficit with China of US\$379 billion in 2018. The United States suffered a US\$419 billion deficit in goods trade and enjoyed a US\$41 (rounded) billion surplus in services trade. However, in light of the deteriorating US–China relations and the bilateral trade war, trade volumes between the countries have significantly shrunk during 2019 and the first half of 2020 (U.S. Census Bureau, 2020).

According to the US Department of Commerce, exports of goods and services to China supported an estimated 911,000 jobs in 2015 (latest data available), with 601,000 supported by goods exports and 309,000 by services exports. (Office of the U.S. Trade Representative, 2020).

Capital flow. The Rhodium Group (2020) reports that Chinese FDI in the United States totaled US\$150 billion during 1990–2019, peaking at US\$46.5 billion in 2016, only to drop precipitously after 2017. On the other hand, total US FDI in China during 1990–2019 amounted US\$284 billion.

Another type of cross-border capital flow is investments made by venture capital (VC). Chinese VC investment in the United States had followed an upward trend before peaking at US\$4.7 billion in 2018. Similarly, US VC investment in China peaked at US\$19.6 billion in 2018. VC investments both ways have since declined dramatically in light of the rising tensions between the United States and China (Rhodium Group, 2020).

A third type of cross-border capital flow is the access to the financial markets. China was the largest foreign country holder of US Treasury bonds almost for the entire 2008–2019 period, peaking at US\$1.315 trillion in November 2013 (U.S. Department of Treasury, 2020). Access to US credit and equity markets enabled Chinese firms to raise large amounts of dollar-denominated capital. For example, as of February 2019, 158 Chinese firms, with an estimated total market capitalization of US\$1.2 trillion, were listed on major US stock exchanges (US–China Economic and Security Review Commission, 2019). However, like FDI and VC investment, this type of capital access is also subject to increasing scrutiny and restrictions by the US government. According to Renaissance Capital (2019), both

the number of new Chinese IPOs and the amount of capital raised in the United States declined in 2019. Some prominent Chinese-domiciled firms such as Alibaba, Inc., NetEase, and JD.Com have recently diversified their listings into other exchanges such as Hong Kong. The New York Stock Exchange was even pressured by the government to delist three Chinese telecommunication firms: China Unicom, China Telecom, and China Mobile (Rapporteur, 2021).

Supply and value chains. Another essential aspect of globalization and economic integration is the formation of international supply and value chains. A number of factors have been driving an epic process of cross-border industrial transfers over the past decades. These factors include: (a) a new post-cold war geopolitical environment with a single superpower, (b) the pursuit of higher returns by international capital, (c) relatively lower costs of such economic inputs as labor and land in certain regions, particularly East Asia, (d) monetization of the economy in developed countries, particularly the United States, (e) policies adopted by developing countries, particularly China, that are conducive to attracting foreign investments, and (f) advancement of information technologies that breaks down the geographic barrier between countries (Dicken, 1986; Porter, 1990; Engman, 2007; Lehmann, 2012; Stephenson, 2012; Nicita et al., 2013).

There are two major outcomes of the decades-long industrial transfer. First, China has become the *de facto* “world factory.” In 2010, China surpassed the United States as the largest manufacturing country in the world. In 2018, China’s manufacturing output reached US\$4 trillion, roughly the sum of the United States, Germany, and Japan combined and about 29% of the global total. Furthermore, China has a complete industrial system and is the only country with firms spanning the entire UN industrial classification. China ranks No. 1 in the manufacturing of 220 of the 500 major industrial products (Yang, 2019).

Second, global supply and value chains are increasingly dependent on China. Apple, Inc. (2020), for example, reports 200 top suppliers across 809 manufacturing sites in 2019. Most suppliers are from the East Asian region, and China alone accounts for 20.5% (41 suppliers) and 47% (380 production locations) (Cheng et al., 2019).

However, consistent with PIIIE (2020), McKinsey Global Institute (2019) also finds that globalization reached a turning point in the mid-2000s. Value chains for goods have become less trade-intensive and more regionally focused, especially within Asia and Europe, implying that China and other emerging economies are consuming more of what they produce. The US–China rivalry and the Covid-19 pandemic have reinforced this trend (Bank of America, 2020).

2.5 The Changing Business Competitive Landscape in an Era of US–China Strategic Rivalry

Adopting a “whole-of-government” approach against China (The White House, 2020), the United States has counter-challenged China on multiple fronts. A comprehensive analysis of the competitive landscape at all levels of the US–China

rivalry would be overly ambitious. Therefore, this section only offers our observations and predictions along a few important trends such as globalization and supply chain relocation within the Asia-Pacific region. In addition, as reflected by recent US and China policy measures (discussed earlier), both sides appear to be fighting for leadership in two key fronts: advanced manufacturing and innovation. For example, in their report *Innovation and National Security—Keeping Our Edge*, Manyika et al. (2019) write, “China is closing the technological gap with the United States ... [and] United States needs to respond urgently and comprehensively over the next five years ... to ensure it is the predominant power in a range of emerging technologies.” Accordingly, another focus of the analysis below is on the competitive landscape of the technology sector.

1. The current approach to globalization will partially give way to regionalization and localization (or de-globalization). As companies recalibrate the balance between the yield and the risk of global supply chain and value chain, some will give more weight to the risk considerations. Companies would want to build supply chains that are more resilient to the impact of geopolitics, economic nationalism, technological disentanglement, or natural disasters. This recalibration, however, does not necessarily mean supply chains are moving away from China in an exclusively one-way fashion. For example, because of China’s relative success in controlling the COVID-19 pandemic, foreign direct investments in China during 2020 actually increased by 6% (China Ministry of Commerce, 2021). Recent evidence of re-globalization includes the following:

- (a) The World Investment Report (UNCTAD, 2020) indicates that international production is trending toward shorter value chains, a higher concentration of value added, and declining international investment in physical assets. Global FDI is forecast to decrease by up to 40% from 2019 to 2020 to below US\$1 trillion for the first time since 2015. Internationalization rates, proxied by the average Transnationality Index which measures the extent of foreign assets, sales, and employees of the top 100 global multinational enterprises (MNEs), stagnated in 2019, in line with a global loss of momentum in FDI.
- (b) Some companies, both foreign and Chinese, have transferred all or part of their production from China to Vietnam, India, Mexico, and other Southeast Asian countries since the onset of the trade war. Government policies of both the United States and Japan are providing incentives to encourage the onshoring of their manufacturing companies. A Gartner (2020) survey finds that 33% of companies are moving their supply chains out of China or planning to do so by 2023. Another report by the Bank of America (2020) also points to a tectonic shift of global supply chains of US\$22 trillion market capitalization. Among the companies that have already announced plans to move at least part of their production capacity out of China since 2018 are Apple, Microsoft, Google, Amazon, Samsung, Foxconn, Nintendo, Sony, Pegatron, and GoerTek.

It is worth noting that the dislocation of supply chain away from China is not without challenges and risks, and for individual companies it takes careful cal-

culations to justify such a move. The advantages of manufacturing in China, such as its large market size, strong manufacturing capabilities, and tenacious existing ecosystem, are all hard to shun (Sheffi, 2020). On the other hand, there might be unpredictable risk factors associated with a new relocation destination (Shedletsky, 2019; BBC News, 2020).

- (c) Countries are increasingly relying on bilateral or regional trade treaties instead of the WTO general framework to promote economic cooperation and strengthen supply chains. The United States has implemented 14 trade agreements with a total of 20 countries and is negotiating several more. Some of these trade agreements, such as the United States Mexico Canada Agreement (USMCA), even include provisions intended to exclude China.¹ On the other hand, China just joined the RCEP agreement and is working on the China–Japan–Korea free-trade agreement. It has also expressed interest in joining the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP). These regional agreements are setting up the landscape for future business operations and competition, which are likely to affect the regionalization of supply chains.
- (d) While committing to opening up to the world, China is increasingly looking inward to promote domestic demand as a driver of future economic growth. One of the recently proposed policies, the so-called internal circulation, could have enormous implications that businesses have yet to fully appreciate. China is also more willing to and actively seeks a balance between exports and imports.

Many of the above observations are consistent with the predictions of theories on globalization/de-globalization. While it is well documented in the International Business (IB) literature that globalization results in net-efficiency benefits (Verbeke et al., 2018), certain factors underpinning globalization have been seen weakening for more than a decade, principally due to the rebalancing of world economic power and policies adopted by key states (Petricevic & Teece, 2019; Buckley, 2020; Witt, 2019a, 2019b). Witt (2019a, 2019b) further examines two relevant International Relations theories, liberalism and realism, and points out that all triggers of de-globalization specified in both theories are present in the current environment. Consequently, significant aspects of MNEs' activities under de-globalization will be different from what we have seen so far.

2. **There will be intense competition in high-tech industries and the innovation economy.** Developing countries naturally pursue higher incomes and living standards by upgrading their industries and climbing up the value chain. Developed countries also hope to cling to the top of the value chain to maintain higher incomes and living standards. As everyone aims for the upper end of the value chain, competition is inevitable. Geopolitics and mistrust have led some to view competition between countries as a zero-sum game. Few acknowledge or

¹Clause 32 Section 10, for example, allows signatories to pull out of the USMCA if one country pursues a separate free-trade agreement with a “nonmarket country.” This clause is widely perceived as targeting China, as the United States does not recognize China as a market economy.

realize that economic value chains are rarely static. Competition can shift a whole value chain upward, including both the upper and lower ends, so that all participants can benefit.

The US technology sanctions on many Chinese firms, including ZTE and Huawei, has intensified China's perception of an existential threat to the key parts of its economy. China's Achilles heel is its dependence on foreign semiconductor technology. There are also a few other high-tech areas such as 5G networking, artificial intelligence (AI), and quantum computing where the United States feels it cannot lose to competition. For example, Medin and Louie (2019) points out that the first mover in 5G networking will set standards and practices that are then adopted by subsequent entrants. Conversely, countries that fall behind will be obligated to adopt the standards, technologies, and architectures of the leading country and miss a generation of wireless capabilities and market potential. Notable developments on both sides are discussed below.

- (a) The US semiconductor companies, such as Qualcomm, Intel, Nvidia, and Apple, have traditionally been leaders in chip research and design, but the United States only accounts for around 12% of global semiconductor production capacity (Jackson, 2020). This situation is about to change. To secure control over the entire semiconductor supply chain, the US government is pushing chip manufacturers to relocate to the United States. According to the *New York Times* (June 12, 2020), the US Congress has introduced a bill to increase government funding for the chip industry. A new trust fund will receive US\$22.8 billion annual federal grant to match state subsidies to support new chip facilities. In fact, Taiwan Semiconductor Manufacturing Company (TSMC), the No. 1 chip foundry in the world, has recently announced an initial US\$10-billion plan to build an advanced chip facility in Arizona (Davis et al., 2020). Earlier in May 2020, the US Congress introduced another bill calling for expanding the National Science Foundation and increasing funding by US\$100 billion over 5 years for areas like artificial intelligence, robotics, and advanced manufacturing (Mervis, 2020).
- (b) On the Chinese side, there have also been several major investment moves. China Integrated Circuit Industry Investment Fund (the "Big Fund"), established in 2014, was reported to have raised US\$29 billion in July 2019 to fund its second round of investment in the chip industry (Dai, 2019). More Chinese private companies are entering the chip design realm. Huawei and Alibaba are two prominent examples with early successes. However, China's weakest link is its chip manufacturing capability. On this front, one of the significant moves is the return of Semiconductor Manufacturing International Company (SMIC), a leader among Chinese firms but a laggard behind TSMC, Samsung, and Intel, from the New York Stock Exchange (NYSE) to raise US\$6.55 billion in Shanghai and Hong Kong exchanges in July, 2020² (CNA, 2020).

²On November 29, 2020, the Trump Administration announced it was going to add SMIC to a blacklist of alleged military companies (Reuters, November 29, 2020).

3. **Future business operations and competition will be less market-oriented, following the partial setback in global free trade.** There are multiple dimensions to this new business reality.
- (a) First, while always presenting risks to businesses, geopolitical factors will play a more prominent role in business decisions. Unexpected tariffs could be a blow to companies operating abroad. In addition, many countries, particularly the United States, are implementing stricter, more sweeping rules on businesses in the name of national security. For example, in its response to the Executive Order 13873 titled *Securing the Information and Communications Technology and Services Supply Chain*, the U.S. Chamber of Commerce (2019) cautioned that the proposed rule “would provide the Department [of Commerce] with nearly unlimited authority to interfere in virtually any commercial transaction that covers a substantial portion of the U.S. economy.”
 - (b) Second, even after carefully weighing geopolitical factors in initial business decisions, companies will find it hard to make market-based adjustments later when the future business landscape is fragmented, especially with highly internationalized supply chains. Some companies reorganizing their supply chains in or out of certain regions today may find it prohibitive to reverse their moves. Because of extremely high backtracking costs, these firms will be in a conundrum.
 - (c) Governments will not only loom large behind businesses but also at times come to the front stage. One form of governmental involvement is to provide direct funding to or take ownership of companies. A second form is to issue industrial policies and guidelines, which is evident in China’s MIC 2025 initiative as well as in the US Department of Defense’s *5G Ecosystem* report (Medin & Louie, 2019). A third form is to implement administrative and legislative measures to restrict opponents. Examples include the ban on Huawei by the Five-Eye Alliance countries, the proposed ban of TikTok and WeChat in the United States,³ and the ban of Facebook and Google Search in China, etc. These government actions will likely increase as the US–China confrontation escalates, which may cause irreparable fragmentations in supply chains, consumer markets, and technological systems.
4. **Other Asia-Pacific countries, especially those in East and South Asia, will benefit from the US–China strategic rivalry in the short run, if the rivalry does not spiral out of control and the countries are not eventually forced to take sides.** There are two main reasons why businesses from other Asia-Pacific countries may gain competitive advantages.

³Both TikTok and WeChat have filed lawsuits in court against the administrative orders. As of the time of writing, the ban (and the forced divestiture of TikTok’s US operation) has not been implemented.

- (a) As mentioned before, to avoid the disruptions caused by the US–China trade war, many western multinationals, and even Chinese firms, have already moved or are planning to move their supply chains out of China. Southeast Asian countries such as Vietnam, Malaysia, Philippines, and Thailand are ideal relocation destinations due to their low labor costs and yet proximity to the consumer markets. Vietnam, for example, registered a record US\$38.2 billion FDI inflow in 2019 and is projected to be the only country besides China to have positive GDP growth in 2020 in the face of the Covid-19 pandemic (Nguyen, 2020; Elegant, 2020). India seems to be another desirable destination due to its abundance of labor and size of domestic market. The latest UNCTAD Investment Trends Monitor reports a 13% increase in FDI into India in 2020 against a backdrop of 42% plunge in global FDI in the same year (UNCTAD, 2021).
- (b) The rivalry between the United States and China has raised the status of other Asia-Pacific countries as they are courted by both sides, putting businesses of these countries in a favorable position. The RCEP and CPTPP not only create gigantic free-trade zones and enormous markets for companies from other Asia-Pacific countries, but will also expedite economic integration in the region. In the first half of 2020, ASEAN countries surpassed the European Union (EU) and the United States to become China’s No. 1 trading partner, logging a 2% increase in total imports and exports (China State Council New Office, 2020). Other more advanced economies such as Japan, South Korea, and Singapore will also benefit because their more competitive industries (e.g., electronics, auto, and financial services) will have access to larger markets.

2.6 Conclusions

This chapter discusses the changing business landscape in a new era of US–China strategic rivalry. Since the late 1970s, the US–China relations has evolved from being predominantly cooperative to cooperative/competitive, and to now predominantly competitive. The evolution of the geopolitical relations, coupled with increased globalization for a better part of the past four decades, has fueled rapid growth in international trade, investments, and economic integration. However, a new business landscape, especially in the Asia-Pacific region, appears to be shaping up due to the recent US–China rivalry and the Covid-19 pandemic.

The chapter provides a view of such a new business landscape and observes a few significant trends. Globalization is at least partially receding. Supply chains are being reshuffled. Regional economic integration is accelerating. Competition in the advanced manufacturing and high-technology sectors will continue to intensify. Finally, the rest of the Asia-Pacific region, especially the Southeast Asian countries, will likely benefit in the short run from the US–China strategic rivalry, assuming this rivalry will not descend into a new cold war (Dupont, 2020).

Although the conflicts between the United States and China are structural (Allison, 2015), domestic politics does affect international business relations and

activities, as suggested by both the *liberalism* theory and the *realism* theory (Witt, 2019a, 2019b). The recent transfer of power in Washington has brought some prospect of a less confrontational US–China relationship. It will be interesting to watch how the business landscape evolves under the new Biden presidency.

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Chapter 3

Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP): Implications for the Asia-Pacific Region



Terry Wu and Doren Chadee

3.1 Introduction

On March 8, 2018, the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) trade agreement was signed by 11 Pacific Rim countries in Santiago, Chile, after the withdrawal of the United States from the original Trans-Pacific Partnership (TPP). These 11 countries include Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam (Global Affairs Canada, 2018a). This trade deal is significant because it creates one of the world's largest trading blocs spanning over four continents, accounting for 13.5% of world's gross domestic product (Global Affairs Canada, 2018a). This free trade agreement is designed not only to eliminate tariffs and lower most trade barriers in these 11 Pacific Rim countries, but also addresses a number of emerging trade issues in the new economy of the twenty-first century (Department of Foreign Affairs and Trade, 2020). While the CPTPP has been agreed to in principle by all 11 signatories, only seven countries have implemented this agreement because it requires parliamentary ratification by the respective governments.

The election victory of Donald Trump as US president signals a fundamental shift in US trade policy and a sudden return to protectionism. On January 23, 2017, four days after his inauguration, President Donald Trump signed an executive order to formally withdraw the United States from the TPP trade agreement that the previous Obama Administration signed with 11 other countries (USTR, 2015).

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The US withdrawal posed a dilemma for the remaining signatories. The original TPP required ratification by at least six participating members with at least 85% of the combined GDP in the trade bloc for it to proceed (USTR, 2015). Because of this condition, the implementation of TPP depended largely on the participation of the United States which alone accounted for approximately 62% of the total GDP of TPP members. It should be noted that the combined GDP of the United States (62.1%), Japan (16.4%), and Canada (6.4%) alone constituted 85% of the GDP requirement. Thus, there was no way that TPP could survive without the United States because it did not satisfy the 85% requirement. Even if the remaining signatories, Australia, Chile, and Peru decided to ratify the TPP, their small share of the group's GDP implied that TPP could not have been implemented.

Given the US withdrawal from TPP, there was a speculation that TPP was practically dead. Some member countries scrambled to salvage the trade deal after the United States pulled out of TPP. Japanese Prime Minister Shinzo Abe tried to persuade US President Trump to change his mind on TPP (New York Times, 2017), but failed at the end. Several other countries such as Australia, New Zealand, and Singapore still wanted to retain the TPP without the United States (Reuters, 2017).

To save the TPP from collapse, the remaining 11 signatories agreed to negotiate a revised version of the TPP. They finally concluded the CPTPP in a modified form. On December 30, 2018, the CPTPP entered into force among the first six countries (Australia, Canada, Japan, Mexico, New Zealand, and Singapore), which ratified the agreement (Global Affairs Canada, 2020). On January 14, 2019, the CPTPP came into effect in Vietnam after ratification.

Although there is an extensive literature on the original TPP (Kelsey, 2019; Lim et al., 2012; Nottage, 2016; Petri & Plummer, 2016; Wilson, 2015), only a few studies have focused on the CPTPP, including several studies regarding trade issues of the CPTPP (e.g., Li et al., 2020; Upreti, 2018; Wang, 2019; Wu, 2020). Upreti (2018), for example, examined the importance of intellectual property in the newly formed CPTPP. Wu (2020) explored the divergent positions of member countries of the Association of South East Asian Nations (ASEAN) in joining the CPTPP. Khan et al. (2018) developed an empirical model to estimate the impact of CPTPP on Pakistan and argued that Pakistan would suffer from this trade agreement due to trade diversion of textile and apparel products as a result of the CPTPP. Using the CPTPP as one of the examples, Wang (2019) argued that there is a content convergence of free trade agreements around the world, especially in areas of regulatory disciplines and dispute settlement. More recently, Li et al. (2020) developed a simulation model to compare the potential effects on trade, GDP, and employment if China and the United States were to join the CPTPP.

The world economy is facing a series of unprecedented developments, including the US–China trade war, a worldwide pandemic, and a looming global recession. Compounding these challenges are geopolitical issues such as the perceived Chinese expansionism, China–India military conflicts, and the militarization of the South China Sea. While the CPTPP is a free trade agreement for the Pacific Rim, it is also a foreign policy alliance with geopolitical considerations.

The purpose of this study is to analyze CPTPP in relation to the original US-led TPP and to examine implications of CPTPP for the Asia-Pacific region from both economic and geopolitical perspectives. This chapter begins with an overview of the CPTPP in the context of the World Trade Organization (WTO) and the broad trend of mega regional trade agreements.¹ The next section discusses the economic impact of the CPTPP on member countries. An analysis of the geopolitical implications of the CPTPP is then presented. It is followed by a discussion of the implications for the Asia-Pacific region. Four possible scenarios are then presented for the future of CPTPP. The final section concludes with a summary.

3.2 An Overview of the CPTPP

The origin of TPP can be traced back to a 2005 free trade agreement. In 2005, the regional free trade proposal was initially started by four small Pacific Rim countries—New Zealand, Singapore, Brunei, and Chile. These four countries successfully negotiated a preferential trade agreement (PTA) called the Trans-Pacific Strategic Economic Partnership Agreement, commonly known as the “Pacific 4” or P4 (Elms & Lim, 2012). The P4 agreement consisted of 20 chapters on market access and trade rules. This trade agreement came into effect in 2006, with an accession clause to allow other countries to join at a later date (Lewis, 2011). For the P4 countries, their attempt to liberalize goods and services was not effective in captivating world attention because they were small countries with limited global economic significance.

In September 2008, the US government under President Obama announced its intention of joining the P4 agreement (Lewis, 2011). The US announcement was greeted enthusiastically by both Australia and Peru which also expressed their strong interest in joining the trade talks. Recognizing the potential benefits of a free trade agreement, Vietnam wanted to participate as an observer (Elms & Lim, 2012). In November 2010, Vietnam officially changed its status from an observer to a formal member. Malaysia also joined in the negotiations in 2010. In essence, the TPP membership was extended to include five new countries: the United States, Australia, Malaysia, Vietnam, and Peru. After Japan signaled its intention to join the TPP in 2011, both Mexico and Canada also wanted to join the trade negotiations in late 2012 for fear of being left out of this trading bloc in the Pacific Rim (Fergusson et al., 2013; Hidalgo, 2016).

Unlike a multilateral trade agreement where all countries agree to the same rules, this plurilateral agreement allows non-reciprocity among member countries.² This

¹A mega regional agreement refers to a trade agreement between countries of different regions which accounts for a large share of the world’s trade and investment.

²A multilateral agreement refers to a trade agreement among all WTO member countries. A plurilateral agreement refers to a trade agreement between a group of countries which choose to agree to specific new trade rules.

means that the proposed agreement permits country X to offer concessions that benefit country Y in exchange for other concessions from country Z (Hamanaka, 2010). As a result of the pluralistic nature of this proposed trade agreement, some elements of the agreement apply to specific member countries only, though most elements apply to most countries. An example of the plurilateral agreement is the Canada–New Zealand side agreement which allows Canada to grant market access to New Zealand wine and distilled spirit products in exchange for Canadian exports of Canadian whisky to New Zealand (New Zealand Ministry of Foreign Affairs and Trade, 2018).

The first round of TPP negotiation took place in Melbourne, Australia, in 2010. An agreement was finally reached after 19 rounds of negotiations over a period of 5 years. It should be noted that these 12 TPP member countries are hugely diverse in terms of political structure and economic development. While the United States, Canada, Australia, New Zealand, and Japan are developed nations with high per capita income, Malaysia, Vietnam, Peru, and Mexico are developing nations with relatively low per capita income. Of particular interest is that Vietnam is a communist country without a democratic tradition.

The TPP was expected to promote the liberalization of trade in goods and services in the trading bloc and strengthen economic integration in the Pacific Rim. China did not ask to join the TPP given the requirements to reform China's state-owned enterprises and labor obligations. Other countries and regions expressed interest in joining the TPP include South Korea, Thailand, Philippines, Cambodia, India, Columbia, Laos, and Taiwan.

After the United States exit, Japan took a leadership role to revive the TPP. After several rounds of negotiations, the remaining signatories were able to preserve the mega free trade agreement without the United States. The renegotiated trade agreement among the remaining 11 countries were renamed CPTPP. All CPTPP nations are current members of the Asia-Pacific Economic Cooperation (APEC) and the World Trade Organization (WTO).

Table 3.1 shows the pre-existing bilateral and trilateral free trade agreements (FTAs) among CPTPP countries.³ It is interesting to note that many CPTPP countries already have multiple FTAs among themselves such as the Canada–Peru FTA and Canada–Chile FTA (Wu, 2002). As shown in Table 3.1, both Japan and Singapore have FTAs with eight CPTPP countries. Similarly, Malaysia has seven FTAs with CPTPP countries, while Vietnam has six FTAs with other members. This suggests that these economies are well connected to one another through the existing free trade agreements (Williams, 2013). The economies of Canada and Mexico are already well integrated through one of the world's most comprehensive FTAs, the North American Free Trade Agreement (NAFTA) which started in 1994 (Wu & Longley, 1991a, 1991b). NAFTA was subsequently superseded by the United States–Mexico–Canada Agreement (USMCA). Overall, the data suggests that most

³A bilateral agreement refers to a trade agreement between two countries. A trilateral agreement refers to a trade agreement among three countries.

Table 3.1 Existing free trade agreements among CPTPP member countries

Country	Australia	Brunei	Canada	Chile	Japan	Malaysia	Mexico	New Zealand	Peru	Singapore	Vietnam
Australia		X		X	X	X		X		X	X
Brunei	X				X	X		X		X	X
Canada				X			X		X		
Chile	X				X	X	X		X	X	
Japan	X	X	X	X	X	X	X	X	X	X	
Malaysia	X	X		X	X		X			X	X
Mexico				X	X				X		X
New Zealand	X	X	X	X	X	X				X	X
Peru			X	X	X		X			X	
Singapore	X	X		X	X	X		X	X		X
Vietnam	X			X	X	X		X		X	

Sources: Data compiled from New Zealand Ministry of Foreign Affairs and Trade, Global Affairs Canada, Australian Department of Foreign Affairs and Trade, Japan Ministry of Economy, Trade and Industry (METI), Singapore Ministry of Foreign Affairs, and World Trade Organization (WTO) (2021). Regional Trade Agreements Database

CPTPP countries are already integrated into the economies of the trade bloc and that most CPTPP countries already have a framework in place for the reduction of trade and investment barriers.

The information in Table 3.2 summarizes some salient features of CPTPP member countries. Together, the 11 members of CPTPP account for 12.8% of world GDP and 6.6% of world population. In terms of market size, CPTPP members range from countries with small populations (Brunei, New Zealand, and Singapore) to some large countries (Japan, Mexico, Vietnam). Similarly, the CPTPP comprises some economically affluent economies (Australia, Canada, New Zealand, and Singapore) as well as some middle to low income countries (Vietnam, Peru, and Mexico).

The catalyst for the TPP stems from the failure of the World Trade Organization (WTO) and its predecessor, the General Agreement on Tariffs and Trade (GATT) in progressing multilateral free trade (Petri et al., 2011). For over seven decades now, the international trade framework has been governed by the GATT since its creation in 1947, and subsequently fine-tuned by the WTO after 1995. However, the efforts of both organizations in liberalizing global trade and investment environments have been marred by a series of failures (Hufbauer & Cimino-Isaacs, 2015). It should be acknowledged that the GATT managed to reduce tariffs and non-tariff barriers

Table 3.2 Demographic and economic indicators of CPTPP members countries

Country	2019 Total Population (000)	2019 GDP per capita (US\$)	2019 FDI Inflows (million US\$)	2019 Total GDP (billion US\$) ^a
Australia	25,363	54,907	36,156	1,392.7
Brunei ^b	433	31,087	275	13.5
Canada	37,589	46,195	50,332	1,736.4
Chile ^b	18,952	14,896	11,437	282.3
Japan	126,264	40,247	14,552	5,081.8
Malaysia	31,949	11,415	7,650	364.7
Mexico	127,575	9,863	32,921	1,258.3
New Zealand ^b	4,917	42,084	5,427	206.9
Peru	32,510	6,978	8,892	226.8
Singapore ^b	5,703	65,233	92,081	372.1
Vietnam	96,462	2,715	16,120	261.9
Total CPTPP members	507,717		275,843	11,197.4
Total World	7,673,533		1,539,880	87,751.5
CPTPP share of the World (%)	6.6		17.9	12.8

Sources: Compiled from World Bank national accounts data; United Nations Conference on Trade and Development (UNCTAD, 2020), *World Investment Report 2020*; World Bank (2016), *World Development Indicators*, Table 4

^aGDP at market price (Gross domestic product) is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products

^bDenotes the four founding members of the original TPP

which plagued the world trading system in the 1960s to 1980s. However, since 1995 when the WTO was formed, progress in multilateral trade and investment liberalization has slowed to a grinding halt (Wilson, 2015; Paul, 2015). This may be due to the fact that the rapid pace of globalization has increased the complexities of world trade and investment environments. The WTO, which is still largely guided by the principles of the GATT, is not equipped to deal effectively with emerging trade and investment issues such as tax evasion, transfer pricing, corporate corruption, and bribery which were not relevant 70 years ago. The ineffectiveness of the WTO in liberalizing trade and investment is vividly illustrated by the fact that the Doha Round of trade negotiations which started in 2001 were supposed to last for only 3 years but instead continued for 12 years with few outcomes (Hufbauer & Cimino-Isaacs, 2015).

Given the complexities of multilateral trade negotiations and the slow progress in freeing-up world trade under the WTO, a number of pro-free trade nations started to explore the possibility of preferential trade agreements above and beyond the scope of WTO (Capling & Ravenhill, 2011). As a result, since the mid-1990s the global economy has witnessed a rapid rise in the number of bilateral and plurilateral free trade agreements. It is estimated that more than 600 FTAs had been notified to the WTO by 2015 (Hufbauer & Cimino-Isaacs, 2015). More recently, a new trend has emerged where countries are exploring mega regional FTAs involving multiple countries which together account for a large share of the global economy (Wilson, 2015). Unlike most traditional and historical FTAs, mega regional FTAs extend beyond regional borders and are not solely focused on tariff reductions. Rather, they tend to be broader in scope in addressing trade and new investment issues related to the realities of global commerce in the twenty-first century (Cernat, 2013).

This is a major paradigm shift in the global trading system. Some countries have decided to change their negotiating priorities from the WTO, given the deadlock in the multilateral trade negotiations. Also, the traditional approach to FTAs is no longer sufficient to deal with new emerging trade issues in the new global economy. Hence, Asia-Pacific countries consider CPTPP as a complement to WTO negotiations, and use it to cover emerging trade and investment issues in the region.

3.3 The Economic Impact of the CPTPP

The CPTPP is designed to reduce tariffs and non-tariff trade measures and eliminate discriminatory barriers on foreign investment, customs procedures, licensing requirements, and technical standards. It is worthwhile to consider two points. First, all CPTPP countries are members of the WTO. Second, most of the CPTPP countries have bilateral and multilateral FTAs among themselves. As a result of membership in the WTO and FTAs, these member countries have already had low tariffs among themselves even prior to the CPTPP. By 2014, the average intra-CPTPP tariff rates have dropped to only 2.7% (World Bank, 2016). Nevertheless, there is still room for member countries to benefit from trade liberalization, particularly for

those countries that have no bilateral FTAs with other members prior to CPTPP. For example, Vietnam's average applied tariff rate was 10.6%, while Japan's tariffs on fresh/chilled and frozen beef were 38.5% prior to CPTPP (Global Affairs Canada, 2018b). Canada, for example, is able to gain preferential access to new FTA partners such as Japan and Vietnam under the CPTPP.

While non-tariff trade barriers vary from country to country in the new trade bloc, there are generally more trade restrictions in Asia than in North America. Under the CPTPP, a number of non-tariff trade barriers such as divergent regulatory standards, indirect subsidies, and product labelling requirements are removed, ensuring a greater market access within the trade bloc.

The CPTPP agreement is a trade agreement that covers digital trade, intellectual property rights, state-owned enterprises, regulatory coherence as well as investment and government procurement policies (Global Affairs Canada, 2018a). A comparison of it with the TPP reveals that two-thirds of the CPTPP provisions are identical to the TPP (Goodman, 2018). However, 22 provisions from the original TPP agreement were suspended or modified in the new CPTPP as they were no longer priorities of remaining members (Goodman, 2018). Table 3.3 presents key differences between CPTPP and TPP. For example, in the modified version, CPTPP countries agreed to remove certain controversial TPP provisions such as the investor-state dispute settlement mechanism (ISDS) which granted investors the right to use dispute settlement proceedings against a country's government (Global Affairs Canada, 2018a). Given the resistance to the extension of intellectual property rights to 70 years in the TPP, member countries agreed to reduce the term to 50 years under the CPTPP (Global Affairs Canada, 2018a). Despite these changes, the provisions

Table 3.3 Key differences between CPTPP and TPP

Topics	Chapter	Key Differences
Customs Administration and Trade Facilitation	5	Member countries agree not to assess customs duties on express shipments below a fixed amount as set under the CPTPP
Investment	9	The CPTPP narrows the scope of the investor-state dispute settlement (ISDS) mechanism
Financial Services	11	The CPTPP suspends the minimum standard of treatment related to the financial services
Government Procurement	15	Commitment to ensure compliance to international labor rights in government procurement process is suspended under the CPTPP
Intellectual Property	18	The CPTPP suspends the provision to extend the terms of protection for copyright to 70 years.
Environment	20	Measures to combat trade on endangered species of wild flora and fauna are no longer required under the CPTPP

Sources: Derived from the New Zealand Ministry of Foreign Affairs and Trade (2020). *CPTPP vs TPP*; Department of Foreign Affairs and Trade (DFAT) (2015). *Trans-Pacific Partnership Agreement*. Canberra: Government of Australia

Table 3.4 Impact of the CPTPP on GDP growth and export growth over baseline projections by 2030 (base year: 2016)

Country	GDP Growth (%)	Export Growth (%)
Australia	0.5	4.4
Canada	1.7	1.5
Brunei	1.9	1.7
Chile	0.1	0.7
Japan	1.0	1.9
Malaysia	1.3	4.6
Mexico	0.8	1.6
New Zealand	0.5	6.4
Peru	1.1	1.8
Singapore	0.8	3.8
Vietnam	3.5	5.0
All CPTPP members	0.4	2.8

Sources: Data are derived from Ferrantino, M. J., Maliszewska, M., Taran, S. 2019. *Actual and Potential Trade Agreements in the Asia-Pacific: Estimated Effects*. Washington, D.C.: World Bank Group

on intellectual property rights in the CPTPP still offer the most advanced standard to protect innovators in a free trade agreement.

All 11 member countries are expected to achieve economic gains from the CPTPP. As shown in Table 3.4, CPTPP will increase the GDP of a member country from a low of 0.1% in Chile to a high of 3.5% in Vietnam by 2030 (Ferrantino et al., 2019).

Table 3.4 reveals that the combined GDP will rise by 0.4% for all CPTPP countries, resulting in an increase of US\$74 billion (Ferrantino et al., 2019). Most of the GDP increases will come from increased access to selected Asia-Pacific markets from exports. The country with the largest gains in GDP is Vietnam due to its growing manufacturing sector and strong supply chain systems. In contrast, the impacts on GDP in Chile, Australia, and New Zealand are relatively small, with increases of 0.1%, 0.5%, and 0.5%, respectively. It is reasonable to expect that the economic gains to Chile are relatively small because the country has minimal involvement in the supply chains. Table 3.4 also shows major export increases in several countries: New Zealand (6.4%), Vietnam (5.0%), Malaysia (4.6%), and Australia (4.4%).

In this free trade bloc, Japan is the largest trade and investment country, accounting for 45% of the total GDP of CPTPP members. Japan is not only a huge market of 126 million affluent consumers, it is also a source of foreign investment funds for the Asia-Pacific region. For CPTPP members, Japan is the largest export market. The increased access to the Japanese market is therefore extremely beneficial to small economies such as New Zealand, Vietnam, and Malaysia.

3.4 The Geopolitical Implications of the CPTPP

The last three decades have brought a dramatic change in international economic order which is characterized by a gradual shift of global economic activities from Europe to Asia. The United States has come to realize the economic importance of the Asia-Pacific region to the US economy over the next few decades. For policy makers in the United States, a large extent of the success of US security policy depends on a stable and prosperous Asia. The Obama Administration publicly declared a “pivot to Asia” strategy, marking a major shift in US foreign policy focus from Europe to Asia (Capling & Ravenhill, 2011; Fergusson et al., 2013). The US efforts have included deepening its economic relationships with Asian countries and strengthening US alliances in the region to balance the rising economic and political influence of China. In a speech on April 6, 2015, the US Secretary of Defense Ash Carter highlighted the importance of passing of the TPP in relation to US strategic interests in Asia:

“... TPP also makes strong strategic sense, and it is probably one of the most important parts of the rebalance but in terms of our rebalance in the broadest sense, passing TPP is as important to me as another aircraft carrier.” (U.S. Department of Defense, 2015)

The TPP played an important role in advancing US foreign policy and security objectives. With respect to international power politics, a shift in power could lead to incentives and disincentives for creating international agreements (Hamanaka, 2010). For a declining power, it may use regional agreements to contain the rising powers when it is still strong enough to establish a favorable agreement (Johnston & Ross, 1999; Hurrell, 1995). In the context of power dynamics, both the United States and Japan are considered as declining powers whereas China is generally viewed as a rising power.

Previous research suggests that US foreign policy goals and trade relations between the United States and the rest of the world are intertwined (Bove et al., 2014) and that trade and economic growth can contribute to stability and security (Dorussen, 2006; Jinjarak, 2009). Thus, US motivations for CPTPP is likely to be driven by foreign policy and security considerations rather than commercial considerations (Capling & Ravenhill, 2011).

It is clear that the TPP was part of the broad US “rebalancing” to Asia Policy (Du, 2015). There was a widely held view that the TPP was a US-led free trade agreement with the primary objective to contain China’s rapid economic rise (Song & Yuan, 2012). The US presence in the Asia-Pacific region through the TPP perhaps had greater political significance compared to its economic significance. Some studies suggest that Asian-based FTAs are driven mainly by US foreign policy objectives rather than economic ones (Aggarwal & Govella, 2013; Aggarwal & Urata, 2006; Desker, 2004; Postigo, 2016). The TPP was supposed to bind several strategic allies, such as Vietnam, Japan, Malaysia, New Zealand, Singapore, and Australia together to act as a safeguard against the economic and military rise of China in the region. Hence, the TPP would have reshaped the economic integration in the Asia-Pacific, thereby reducing China’s economic and political influences in the region,

The TPP would have allowed the United States to write the trade rules for the Asia-Pacific region. In fact, US President Obama has argued that “China will write the rules for Asia” if there was no TPP (Seib, 2015). The United States insisted that any other country that wanted to join the TPP would be unlikely to change key elements of the TPP that were already agreed upon by the 12 founding members. The US insistence meant that new entrants such as China or South Korea would have to accept the existing rules and terms of the TPP agreement should they decide to join in the future.

Although China is a latecomer in joining the WTO, the country has benefited significantly from its accession to WTO since 2001. As part of the WTO commitments, China agreed to open its domestic market to foreign imports and reduced its tariffs on foreign goods in exchange for increased access to global markets (Agarwal & Wu, 2004; Paul, 2016). The market reforms and trade liberalization have transformed China from a minor player in international commerce to the world’s largest trading nation in less than two decades. To further benefit from the global economy, China has adopted a multi-track trade policy. On the one hand, China is cautious and pragmatic in multilateral trade negotiations under the WTO, keeping a relatively low profile and avoiding any controversial trade demands and proposals. On the other hand, China is actively pursuing its own free trade agenda with other Asian countries. The primary focus of China’s trade policy is on bilateral and regional free trade agreements such as China–South Korea FTA, China–Japan–South Korea FTA, China–ASEAN FTA, and the Regional Comprehensive Economic Partnership.

China was concerned that it could be exposed to negative consequences of trade diversion in favor of TPP members. In 2011, China decided to launch an alternative free trade proposal known as the Regional Comprehensive Economic Partnership (RCEP) (Solis & Katada, 2015). The RCEP is a regional FTA consisting of 10 ASEAN countries plus China, Japan, South Korea, Australia, New Zealand, and India (Devadason, 2014). In November 2019, India decided to withdraw from RCEP negotiations for fear of Chinese imports that may flood the Indian market under the FTA. After 8 years of continuing negotiations, RCEP was finally signed by 15 signatories in November 2020. Table 3.5 summarizes the intricate web of trade agreements involving Asia-Pacific nations. It is interesting to note that the China-led RCEP is a more inclusive trade agreement compared to CPTPP by including all ASEAN members plus Australia, Japan, and New Zealand from the CPTPP and South Korea. It is also noteworthy that the RCEP does not include Canada, Chile, Peru, and Mexico, all members of CPTPP.

When the original P4 agreement was signed in 2005, China did not pay much attention to it because this FTA involved four small economies in the Asia-Pacific. However, China was increasingly interested in TPP after the United States announced its decision to join negotiations for an expanded TPP agreement. In May 2013, China expressed some interest in joining the TPP. In theory, TPP did not exclude any country such as China. In reality, China was deliberately excluded from participation because of specific restrictions imposed on state-owned enterprises (SOEs). Also, the United States announced in November 2013 that TPP would not

Table 3.5 Major free trade groupings of the Asia-Pacific nations

ASEAN-10 members	CPTPP-11 members	RCEP-15 members
Cambodia		Cambodia
Indonesia		Indonesia
Laos		Laos
Myanmar		Myanmar
Philippines		Philippines
Thailand		Thailand
Brunei	Brunei	Brunei
Malaysia	Malaysia	Malaysia
Singapore	Singapore	Singapore
Vietnam	Vietnam	Vietnam
	Australia	Australia
	Japan	Japan
	New Zealand	New Zealand
	Canada	
	Chile	
	Peru	
	Mexico	
		South Korea
		China

Source: Compiled by the authors based on data from the World Trade Organization (WTO), and Regional Trade Agreements Database

be able to accept any new members until the TPP negotiations were completed (Du, 2015).

Given China's extensive trade and investment linkages in Asia (Bu & Wu, 2022), it is surprising that China was not a participating member of the TPP. For the United States, the TPP was part of the broad United States "rebalancing" to Asia Policy (Du, 2015). There was a widely held view that the TPP was a US-led free trade agreement that was designed to contain China's economic rise. Under the CPTPP, Chinese-made products are placed at a competitive disadvantaged position when they are subject to discriminatory treatment in the CPTPP markets.

After the implementation of CPTPP, some of the production could be shifted away from China to other Asia-Pacific countries such as Vietnam and Malaysia. Under the CPTPP, Vietnamese and Malaysian products can easily enter other CPTPP markets duty free. Under these circumstances, some Chinese exports to CPTPP markets could be displaced by CPTPP member countries.

A major challenge for China is whether to join the CPTPP given the changing international environment. But the CPTPP agreement poses a policy dilemma for China. If China decides to join the CPTPP in the future, it must agree to the stringent conditions and standards that were already imposed by the CPTPP. Even if other countries are willing to include China's participation in the CPTPP, they are

likely to oppose any attempts by China to renegotiate the terms and conditions of this agreement.

3.5 Implications for the Asia-Pacific Region

The Asia-Pacific region is one of the most dynamic regions in the global economy. The growing interdependence in Asia-Pacific economies is a catalyst for deeper economic integration in this diverse region. The CPTPP represents a significant development for deeper cooperation and trade liberalization.

The Asia-Pacific countries benefit both directly and indirectly from the CPTPP. These countries benefit directly by increasing production efficiency in this regional market and by gaining access to a huge market of over 507 million consumers. The Asia-Pacific emerging economies also benefit indirectly through accelerated industrialization from a mega regional FTA. There are several implications of the CPTPP for the Asia-Pacific.

3.5.1 Economic Benefits

In terms of trade liberalization, the CPTPP is a more advanced free trade agreement than the RCEP. Although RCEP was signed by more countries, actual economic benefits are not as substantial as the CPTPP for three reasons. First, CPTPP reduces tariffs on more goods than RCEP. Second, unlike RCEP, the CPTPP provides specific provisions on SOEs, e-commerce, and government procurement. For example, the CPTPP restricts government financial assistance to SOEs and prohibits non-market SOE business practices for the purpose of international trade. The CPTPP also requires all member countries to disclose operation information on their SOEs to other member countries. Third, the CPTPP is estimated to increase combined GDP by 0.4% for all member countries by 2030 (Table 3.4), while the RCEP is estimated to increase GDP for their members by 0.2% only (Japan Times, 2020). From the perspectives of Asia-Pacific countries, economic benefits from the CPTPP would be even more substantial should the United States rejoins the CPTPP in the future.

3.5.2 Standardization

The CPTPP establishes a set of common rules on trade and investment in the Asia-Pacific. In addition to tariff reductions, the CPTPP facilitates standardization in customs procedures, licensing requirements, government procurement, as well as import and export documentation among member countries. Also, the CPTPP

requires all signatories to commit to a high standard comprehensive agreement covering a range of sensitive issues such as cross-border data flows, state-owned enterprises, labor standards, and environmental protection. Under the CPTPP, the standardization of trade rules is likely to reduce non-tariff trade barriers and block unfair business practices in the Asia-Pacific.

3.5.3 Supply Chain Relocations

One of the economic implications for Asia is the restructuring of manufacturing and supply chains in the region under the CPTPP. China is no longer a low-cost producing country when labor costs are increasing rapidly. Hence, some manufacturers are expected to move their production away from China to other Asian countries with lower costs of production. Several ASEAN countries, such as Vietnam and Malaysia are expected to gain from a shift in supply chains under the CPTPP. For example, Vietnam and Malaysia are expected to increase exports by 5.0% and 4.6%, respectively, by 2030 under the CPTPP (see Table 3.4).

3.5.4 Anti-corruption and Transparency

The CPTPP has a separate chapter dedicated to transparency and anti-corruption (Global Affairs Canada, 2018a). Bribery and corruption are considered as criminal and unfair business practices, thereby undermining the integrity of international trade and investment. Under the CPTPP, transparency and anti-corruption provisions require all member countries to introduce measures in order to prevent and combat bribery and corruption in international trade. As nepotism and unfair business deals are prevalent in many Asian countries (CIGS, 2020), the CPTPP is expected to promote transparency and mitigate unfair business practices in the region.

3.5.5 Geo-economic Considerations

Although China is the largest market in the region, some of the Asian countries are suspicious of China's ambitions for regional domination given their historical tensions with China. For example, Japan and Vietnam have territorial disputes with China, a situation that is compounded by China's recent assertiveness in foreign policy. Also, Australia has recently faced a series of trade retaliations from China even after the signing of the China–Australia FTA and the RCEP. From a geo-economic perspective, these Asia-Pacific countries prefer to choose a separate FTA in order to lessen their overdependence on the Chinese market.

3.6 The Future of CPTPP

A key question is the future of this Pacific Rim trade bloc. Any expansion of CPTPP will depend on the trade policy objectives of each member country. This trade agreement has already encountered resistance in a number of countries where it is seen as a threat by local workers afraid of losing their jobs through offshore outsourcing (Petri et al., 2014). In New Zealand and Australia, for example, there is vigorous debate on specific elements of CPTPP which are seen as not being in the national interests. In Australia, for instance, the small economic benefits of GDP growth (0.5%) and export growth (4.4%) from CPTPP continue to raise questions about its relevance of this free trade agreement. Similarly, the economic benefits for Chile are also minimal (Table 3.4). In recent years, the world has also experienced a rise in protectionism and anti-globalization as evidenced by the Brexit and the US withdrawal from the TPP. There are four possible scenarios that could emerge with respect to the future of CPTPP.

3.6.1 *Scenario 1: Retention of Current Membership*

In this scenario, we assume that all 11 member countries want to remain in the trade bloc. Under the CPTPP, these countries accepted the original TPP agreement as a template and amended certain parts that were US specific in the agreement. From their perspective, there is no need to make any more changes in the agreement. In essence, they created a de facto TPP11 after the US exit. Mexico was the first country to ratify the CPTPP. By July 2020, only seven of the 11 countries have approved the agreement after completing their legislative requirements in their respective jurisdictions. However, four remaining signatories (Brunei, Chile, Malaysia, and Peru) still have not yet ratified the trade agreement, due largely to legislative requirements and domestic politics. It is expected that these four remaining countries would eventually approve the agreement, given national priorities in these countries have shifted toward domestic matters (e.g., health and economic recovery) with foreign trade policy receiving little attention in the wake of COVID-19 pandemic. If these 11 member countries remain in this trade bloc, then the economic benefits of the CPTPP would be only one-third as large as those expected from the 12-member original TPP agreement (Petri & Plummer, 2016).

3.6.2 *Scenario 2: Expansion of Membership in CPTPP*

The CPTPP has an open access clause to allow other countries to join if they can meet certain liberalization conditions. This leaves the door open for other countries to join the CPTPP. Several Asian countries such as Cambodia, South Korea, India,

and Thailand have expressed interest in joining the CPTPP. This is the best-case scenario for non-member countries that are enthusiastically embracing the CPTPP.

Of particular interest is that the UK has announced its interest in joining the CPTPP on June 17, 2020 (Reuters, 2021). This is the first time that a European country has indicated its intention in joining the CPTPP. The British are keen to pursue the CPTPP as an option to gain access to the growing Asian market in the post-Brexit environment. The UK is possibly the most prominent contender to join the CPTPP compared to some of the other countries which have indicated their interests from a political and legislative standpoint. Britain's entry to the CPTPP can also attract other European countries to follow the same path to join this mega trade agreement. India would boost the consumer base of CPTPP considerably but given the complex political and legislative systems where decisions are made in India, it is unlikely that India will be a member of the CPTPP any time soon. If the UK and other countries come into the CPTPP, the economic benefits are expected to be much greater than those of an existing one due to new members in an expanded trade bloc.

3.6.3 Scenario 3: US Renegotiation of CPTPP

The election victory of Joe Biden to the US presidency opens the door for the United States to rejoin the CPTPP. This scenario is based on two assumptions: (i) the United States may change its position at a later date after considering the US geopolitical interests; (ii) the new Biden Administration shifts its focus to trade issues after the pandemic is under control in the United States.

Although the Trump Administration opposed the TPP, it is possible that President Biden might be willing to accept a modified CPTPP, especially if the United States could get some more concessions in the future. The history of past US presidents suggests that they can become enthusiastic champions of trade agreements as soon as they are in the White House, even though they have expressed strong anti-trade views during the presidential election (Shribman, 2016). Furthermore, in the United States, a large constituency of business leaders support free trade agreements because they want to expand their markets outside of the United States (Margalit, 2011).

The Biden Administration may also argue that it desires better trade deals for the United States. During the Trump Administration, the United States actually threatened to withdraw from NAFTA unless the United States was able to renegotiate a better agreement. As a result, the United States forced Canada and Mexico to renegotiate NAFTA and subsequently concluded the United States–Mexico–Canada Agreement (USMCA) as a replacement for NAFTA. A new US Administration may employ the same anti-trade rhetoric as part of negotiating tactics to force trading partners to give more concessions.

It is possible that the Biden Administration is willing to reconsider CPTPP. If so, the United States is likely to demand reactivation of suspended provisions in the agreement. If the US returns to the CPTPP, the economic gains for the United States and member countries would be substantial, especially for Vietnam and Malaysia

(Petri & Plummer, 2016). While the possibility of renegotiating CPTPP may not be a top priority for the new US Administration, we should not rule out this possible scenario. More importantly, the United States might want to use the CPTPP to reduce China's economic and political influence in the Asia-Pacific region.

3.6.4 Scenario 4: China's Participation

In theory, China could join the CPTPP if all current members agree to its participation. However, this is not a scenario that some countries such as Japan and Vietnam want to see from a geopolitical perspective. Currently, there are escalating tensions between China and several Asia-Pacific countries, due largely to China's increasingly aggressive foreign policy stance as well as trade and territorial disputes in the region. Thus, it is reasonable to assume that some member countries such as Japan and Vietnam would oppose China's joining of the CPTPP as they do not want China to rewrite the trade rules.

Although China has recently expressed an interest in joining the CPTPP (National Post, 2020), many provisions in this trade agreement conflict with China's current economic structures and business practices. To join the CPTPP, China would have to undertake substantial domestic reforms in its economic structures, including transparency, anti-corruption measures, state-owned enterprises, intellectual property rights, and labor unions. There are no indications that China is prepared to undertake unprecedented domestic reforms in order to join the CPTPP.

If China is able to initiate CPTPP negotiations, it would demand some changes in the agreement. For example, China is concerned with restrictions on state-owned enterprises and rules on intellectual property rights imposed by the TPP (Devadason, 2014). China does not want stringent rules on patent as well as labor and environmental standards. Should China decide to resurrect the mega regional agreement, it is likely to rewrite certain provisions which are in conflict with its own domestic laws. However, it is unlikely that current members are willing to change CPTPP requirements to accommodate China's demands.

In the short term, the two most likely scenarios are the second and third scenarios because the United States may want to re-establish American leadership in the Asia-Pacific region by returning to the CPTPP. From the perspective of current members, the best-case scenario is the return of the United States to the CPTPP. The US decision to rejoin the CPTPP may attract even more countries to seek accession in order to gain access to the huge US market.

3.7 Discussions

The CPTPP allows harmonization of international trade rules across Asia-Pacific member countries. To bridge the differences in rules and standards across CPTPP jurisdictions, participating countries have agreed to a common standard which will

be observed by all members. The harmonization of trade and investment rules beyond WTO is overdue in order to address trade and investment issues in a technology and knowledge-driven globalized world.

The economic gains for the United States from the CPTPP are not significant because the United States already has FTAs with six CPTPP members, including Canada and Mexico as part of USMCA. For this reason, we contend that the main motivating factor for the United States to reconsider CPTPP is to consolidate its military and political influence in the Asia-Pacific region in pursuit of its foreign policy and regional strategic objectives (Capling, 2008). Establishing common trade and investment interests with a number of key allies in the Asia-Pacific region through the CPTPP is also likely to reinforce military and defense ties and provide the United States with a legitimate presence in the region.

Since cooperation through trade and investment can contribute to its foreign policy objectives, the United States may consider the economic benefits arising out of CPTPP to be of a lesser consideration in pursuing the CPTPP. From a political and foreign policy perspective, the CPTPP may allow the United States to strengthen its engagement in the Asia-Pacific region and demonstrate its economic and political leadership in a rapidly changing global environment. As part of a broader Asia strategy, the United States may still want to use the CPTPP as a key element of rebalancing strategy to counter China's growing economic and political influences (Solis & Katada, 2015).

3.8 Conclusions

The CPTPP is a comprehensive free trade agreement which goes well beyond the WTO framework for liberalizing trade and investment in an increasingly technology and knowledge-based global economy (Rychen & Zimmermann, 2008). Although the United States is absent from the CPTPP, the trade and investment rules on state-owned enterprises and e-commerce still remain in the CPTPP agreement. In essence, the United States still benefits from the CPTPP since these established rules will enhance US economic interests even without participation. In addition, several Asian countries such as Japan would be able to use CPTPP to counterbalance China's rising economic and political powers by forming regional allies in the Asia-Pacific region.

The contributions of this chapter are three-fold. First, it focuses on a newly formed CPTPP that is not yet well understood in terms of its implications for the Asia-Pacific region. Second, it presents an argument that the rationale for US participation in the original TPP was based on geopolitical grounds rather than economic reasons. Third, this study presents four different future scenarios of the CPTPP with special attention to the potential actions by China and the United States.

The Asia-Pacific region has witnessed a proliferation of free trade agreements in recent years (Solis & Katada, 2015). Given the stalemated multilateral trade negotiations under the WTO, Asia-Pacific countries have increasingly turned to an

alternative approach of promoting trade liberalization through bilateral and multi-lateral free trade agreements. All CPTPP countries are APEC members from four different continents: North America, South America, Oceania, and Asia. The CPTPP links these economies with a set of common rules and regulations, and all share common interests in market access. The Covid-19 pandemic has caused the world a global public health crisis and widespread damages to the global economy. In the midst of the global pandemic, there are some questions about the nature of international trade and the future of globalization. Given the uncertain economic future and the global recession, there are more reasons for non-member Asia-Pacific countries to explore the benefits of joining the CPTPP. However, the COVID-19 pandemic has also resulted in most nations becoming more inward-looking, with businesses rethinking their international sourcing strategies and the de-risking of supply chains. In this respect, the wave of de-globalization from COVID-19 poses a great risk for the CPTPP.

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Chapter 4

Managing a Demographically Driven Labor Shortage: An Assessment of Japan's Strategic Approach



Jean-Paul Roy

Population aging is set to become the most significant social transformation of the twenty-first century. By 2020, 23 countries had already acquired "super-aged society" status (i.e., having 20.0% of its total population aged over 65) (United Nations, 2019a). In 2050, the world's elderly (i.e., people aged 65 years and older) population is expected to be more than double its size in 2020. More specifically, it is forecasted to grow to 1.5 billion people (16.0% of the world's population), up from 703 million people (9.0% of the world's population) in 2020 (United Nations, 2019a). Although the populations of developed nations were the first to age, it is projected that by 2050 approximately 80.0% of people aged 60 or older will be in low- or middle-income countries (United Nations, 2019a). Geographically, the extent and speed of aging has been greatest in Asia. It is projected that more than half of the countries in the combined East and South East Asia regions will have reached "super-aged society" status by 2050 (see Fig. 4.1). Japan, which became an "aging society" in 1970, an "aged society" in 1995, and a "super-aged society" in 2006, was the first country to reach each of the three aging status levels (see Fig. 4.2).

It is vital that governments with aging populations adopt effective strategies to maintain their labor force (defined as the total number of people within a country that are employed or available for work and are actively seeking work). Not doing so will result in a labor shortage that seriously threatens their nation's economic sustainability. Given that Japan is the frontrunner amongst aging populations and an economic powerhouse, we can gain valuable insights from the country's efforts to manage its demographically driven labor shortage. Therefore, this chapter will present an in-depth examination of the key strategies that the Japanese have adopted in this endeavor. Through this examination the factors undermining the effectiveness of each strategy will be identified and discussed. Before doing so an analysis of

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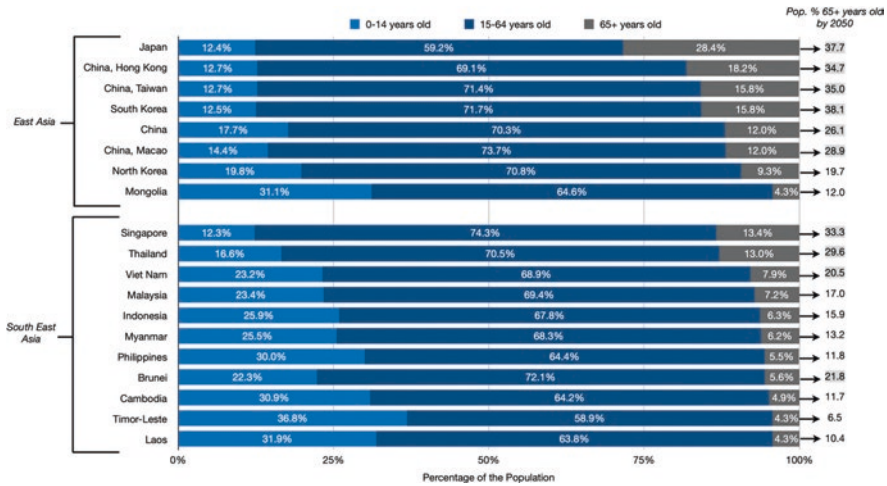


Fig. 4.1 Age distribution across East and South East Asia in 2020 and 2050. *Source:* Compiled by the author based on data within the United Nation’s World Population Prospectus, 2019 (United Nations, 2019a)

Notes:

- (i) The values in the horizontal bars pertain to the year 2020, whereas the values in the far right column pertain to the year 2050
- (ii) The grey boxes in the far-right column identify those countries that will achieve “super-aged society” status by 2050

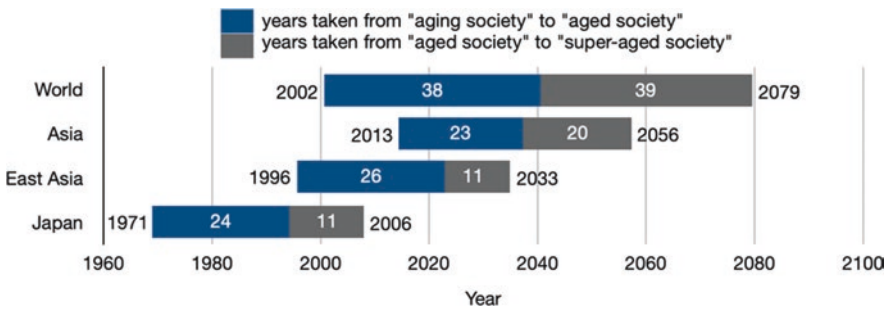


Fig. 4.2 Number of years taken to reach each aging status level. *Source:* Compiled by the author based on data within the United Nation’s World Population Prospectus, 2019 (United Nations, 2019a)

Notes: “aging society” status = having 7.0% to 13.9% of the total population aged over 65; “aged society” status = having 14.0% to 19.9% of the total population aged over 65; “super-aged society” status = having over 20.0% of the total population aged over 65

Japan’s demographic situation, including its current and pending labor shortage, will be conducted. This will be followed by a discussion of the many and varied labor shortage costs. For the sake of conciseness, unless stated otherwise in this chapter, it should be understood that all identified institutions/organizations (e.g.,

governments, companies), groups (e.g., wives, husbands, employees), and data points/trends (e.g., life expectancy levels, suicide rates) are Japan-based. It will not be explicitly stated when referring to these entities and items that they are in Japan (i.e., Japanese).

4.1 Japan's Demographic Time-Bomb

4.1.1 Aging and Labor

Population aging is the result of people living longer (higher life-expectancy rates) while having fewer children (lower fertility rates). Between 1950 and 2020 life expectancy increased 26 and 23 years for women and men, respectively (see Fig. 4.3). The number of elderly persons is growing at approximately 25,000 people each month. The total number is projected to increase from 35.58 million (28.1% of the population) in 2020 to a peak of 39.35 million in 2042 (36.1% of the population) (NIPSSR, 2019). On the other hand, between 1950 and 2020 the fertility rate decreased from 3.65 to 1.43 children per woman. This is well below the replacement level fertility rate set conventionally at 2.1 children per woman, which is the rate at which a population replaces itself from one generation to the next, without migration. The fertility rate is projected to remain around its current level, while life expectancy continues to increase going forward.

In 2019, the number of live births had fallen to 898,600. This is the lowest level since records began in 1899 and down from 2,337,507 live births in 1950 (MHLW, 2020a). Whereas the mortality count in 2019 had increased to 1,393,917. This is a post-WWII high and up from a count of 904,876 in 1950, which is due to the substantial increase in the number of elderly persons (see Fig. 4.4). As a result, the

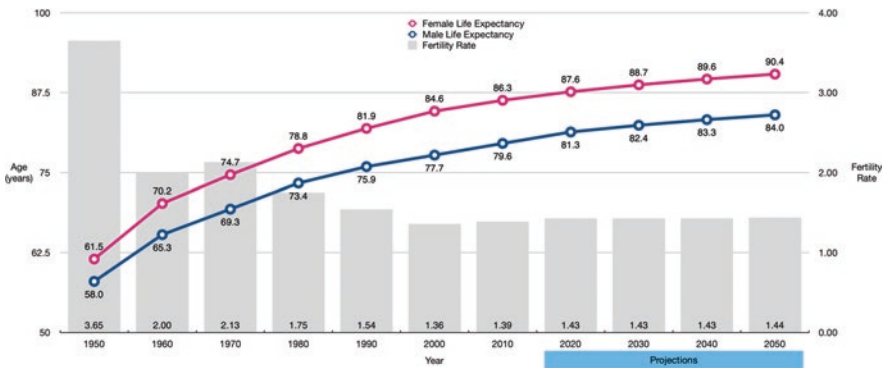


Fig. 4.3 Life expectancy and fertility rates in Japan (1950–2050). Sources: The historical figures were compiled by the author based on data from Japan’s Ministry of Health, Labor and Welfare (MHLW, 2019e). The projections were sourced from Japan’s National Institute of Population and Social Security Research (NIPSSR, 2017) and are based on their medium rate forecasts

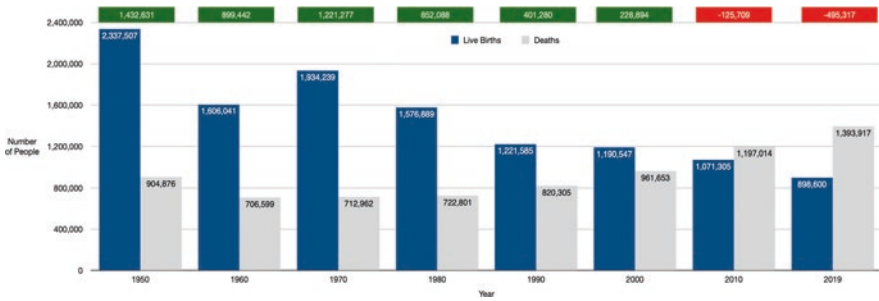


Fig. 4.4 Number of live births and deaths in Japan (1950–2019). *Source:* Compiled by the author based on data from Japan’s Ministry of Health, Labor and Welfare (MHLW, 2019f)

Note: The number in the green boxes is the natural population net gain, whereas the number in the red boxes is the natural population net loss for that year

natural population decreased by 512,000 people in 2019. The number of children in 2020 (i.e., 15.1 million as of May 1, 2020) was less than half the number in the country in 1950, which is the lowest number since that date. While children comprised 12.0% of the population, the elderly comprised 28.7% in 2020 (as of May 1, 2020). Japan’s National Institute of Population and Social Security Research forecasts that by the middle of the century the country will be losing approximately 900,000 people a year (NIPSSR, 2019).

Japan’s old-age dependency rate (OADR) (defined as the ratio between the number of elderly and working-age persons in the country) is not only by far the largest (i.e., 48.0 in 2020) amongst East and South East Asian countries (see Fig. 4.5), but also the largest amongst all countries. Japan’s OADR, which approximates the implied economic dependency associated with a growing share of the population at older ages, is also projected to be the largest in the world in 2050.

Japan’s quick ascent to “super-aged society” status has caused an alarming labor shortage in the country. Since 2000 the country’s working-age population and labor force have dwindled (see Fig. 4.6). For example, between 2000 and 2020 the working-age population decreased by 1,216,000 people. It is projected to decrease by another 2,131,000 people by 2050. In 2019, there were 163 job vacancies for every 100 job seekers, the highest level since the early 1970s (MHLW, 2019b). Also, in 2019, 66.4% of small and medium-size companies and 77.3% of large companies had labor shortages (Nippon.com, 2019). Exacerbating the problem is a brain drain (Oishi & Hamada, 2019). In 2019, 1.41 million Japanese lived overseas, which is a 293,363 person increase since 2008 (MOFA, 2020). It is projected that by 2030 Japan will be short 6.44 million workers. Tokyo alone will be short 1.33 million workers (Persol Research Institute & Chuo University, 2018).

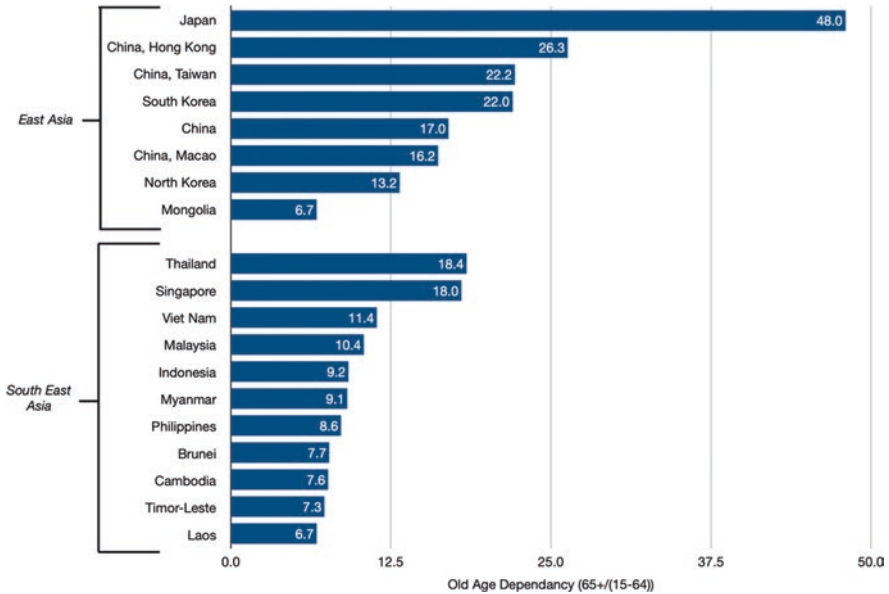


Fig. 4.5 Old-age dependency rates across East and South East Asia in 2019. *Source:* Compiled by the author based on data within the United Nation’s World Population Prospectus, 2019 (United Nations, 2019a)

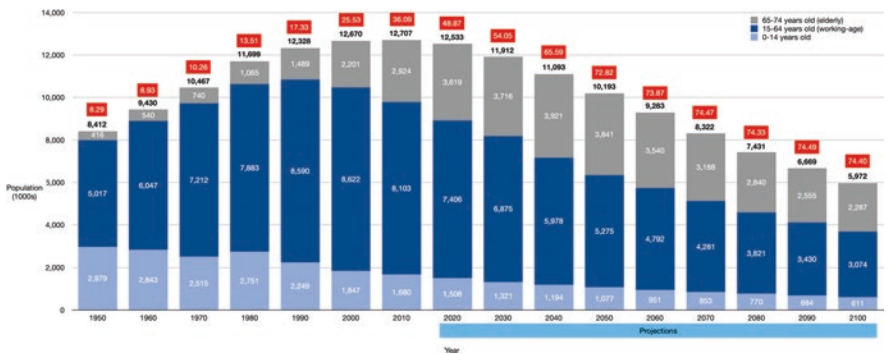


Fig. 4.6 Japan’s historic and projected population (1950 - 2100). *Sources:* Historical data compiled by the author from Japan’s Ministry of Health, Labor and Welfare (MHLW, 2019f); projections sourced from Japan’s National Institute of Population and Social Security Research (NIPSSR, 2017)

Notes:

- (i) The values within each column category are the absolute number of people in the population
- (ii) The bold number above each column is the country’s total population
- (iii) The OADR is stated in the red box above each stacked column. The value is expressed per 100 persons of working-age
- (iv) Columns 2020 through 2100 are the latest projections available
- (v) Medium-fertility and medium-mortality rate forecasts were used for the projections

4.1.2 Labor Shortage Costs

The escalating labor shortage is of great concern given the following very significant and multifaceted negative macroeconomic and socioeconomic implications:

Bankruptcy. In 2019, 185 companies declared bankruptcy due to their being unable to fill vacant employment positions. This was an increase of 544.0% since 2013 (Teikoku Databank, 2020). These same companies recorded combined liabilities of ¥32.7 billion, an increase of 46.1% from the preceding year (Teikoku Databank, 2020).

Skills. The escalating labor shortage has also caused a significant skills shortage. For example, railway operators have been unable to adequately replace their retiring highly skilled veteran workers. As a result, vital technological skills have not transferred to the new generation of workers at these companies (Ishizuka & Hara, 2017).

Safety. Workplace accidents have increased due to there being fewer and less skilled workers. For example, a lack of qualified railway operators has caused an increase in electrical malfunctions, which has undermined people's safety (Ishizuka & Hara, 2017).

Service. More than 80.0% of companies surveyed in 2017 expected labor shortages to force them to reduce their service offerings (Nussey, 2017). Morikawa (2018) found that the services most cited as declining in quality due to labor shortages were door-to-door parcel delivery services, hospitals, restaurants, and elementary and junior high school education. More specific examples of services being cut due to labor shortages include a popular regional airline canceling numerous flights (Demetriou, 2014), Japanese convenience store operators, such as 7-Eleven, cutting their opening hours (Kuga, 2019), and Japan Post's discontinuing Saturday mail delivery (Inoue, 2019).

Worker well-being. Many overworked employees have had to work even longer hours due to labor shortages. These greater work demands have caused an increase in severe anxiety, stress, sleep deprivation, as well as stroke, heart attack, and suicide rates. Japan's Ministry of Health, Labor, and Welfare reported that between 2000 and 2019 mental health disorders caused by a significant psychological burden have greatly increased (i.e., approximately 1,000) (MHLW, 2019i). Researchers found that 22.7% of companies have employees working at levels that expose them to serious risk of death (MHLW, 2019i). The problem is so prevalent that the Japanese have the term "karoshi," which refers to deaths that are attributed to "overwork" and literally translates as "death from overwork." Karoshi was first conceptualized as a health problem in the late 1970s (Iwasaki, et al., 2006). The proximate causes may include, but not limited to, cardiac arrest, stroke, and suicide brought on by occupational stress (Timming, 2020). Suicides are an especially acute problem in recent years. While official records state that 1,949 people took their lives due to work-related matters in 2019 (MHLW, 2019i), Kawahito Hiroshi, Secretary General of the National Defense Counsel for Victims of Karoshi, asserts that the true numbers each year are considerably higher than those reported (White, 2016).

Economic growth. Naturally, as bankruptcies increase and skills, safety, and service decrease, aggregate output and investment decrease. Productivity can be further reduced by an aging labor force given that, compared to younger workers, elderly workers tend to be more reluctant to embrace new technologies and approaches (Umemuro, 2004). The more conservative estimates provided by the International Monetary Fund (IMF) assert that company closures in Japan alone will reduce Japan's Gross Domestic Product (GDP) by US\$196 billion by 2025. The IMF also asserts that the GDP could shrink by 25.0% in the next four decades (Colacelli & Corugedo, 2018).

Consumption, savings, and investments. An aging population and shrinking labor force lower consumption in the economy. There are fewer employed individuals earning wages to spend on consumer goods, save, and invest. Also, retired individuals tend to consume, save, and invest less as they draw on their pensions (Niimi & Horioka, 2019).

Tax revenue. Fewer workers and companies means a decrease in both personal income and corporate tax revenue. It also means fewer consumers, resulting in less sales tax revenue. Furthermore, it means fewer property owners, resulting in less property tax revenue.

Rural decline. Rural populations are also disappearing as younger people increasingly migrate to urban centers to pursue jobs that become available (Ishikawa, 2020; Yui, 2020). The United Nations forecasts that by 2050 the rural population in Japan will decrease by 46.0% from its 2018 level, outpacing every country except China (United Nations, 2019b). As a result, hundreds of towns will disappear, abandoned houses will litter the landscape, and births will drastically decrease in rural areas. These effects compound local governments' ability to provide needed services to those individuals that remain behind.

Social security costs. While tax revenue greatly decreases as the labor force shrinks, the government's expenditures grow substantially. The largest expenditure is social security, which includes pensions, medical care, and welfare. From 1990 to 2020 social security expenditures more than tripled (from ¥11.5 trillion to ¥35.86 trillion) and comprised 34.9% of the 2020 general account budget (see Fig. 4.7) (MOF, 2020b). Between 1989 and 2020 roughly 70.0% of the aggregate increase in outstanding debt was due to increases in social security-related expenses and decreases in tax revenue. If the supplementary portion of tax revenue distributed to local governments from the general account is included in the debt calculation, the percentage increases to approximately 80.0%. As a result, public sector debt hit 237.7% of GDP in 2019 (MOF, 2020a), the highest level in the world. As the pool of tax payers (both individual and corporate) continues to decrease and the population continues to age, social security costs will continue to grow substantially.

The massive burden on public finances that results from the escalating labor shortage poses a very serious threat to Japan's economic sustainability. Given this fact, the Japanese government (hereinafter government) has strived to reduce the labor shortage by adopting three key strategies. The first strategy is to increase the labor force participation rate of women in Japan. The second strategy is to extend the working lives of elderly persons in Japan. The third strategy is to increase the

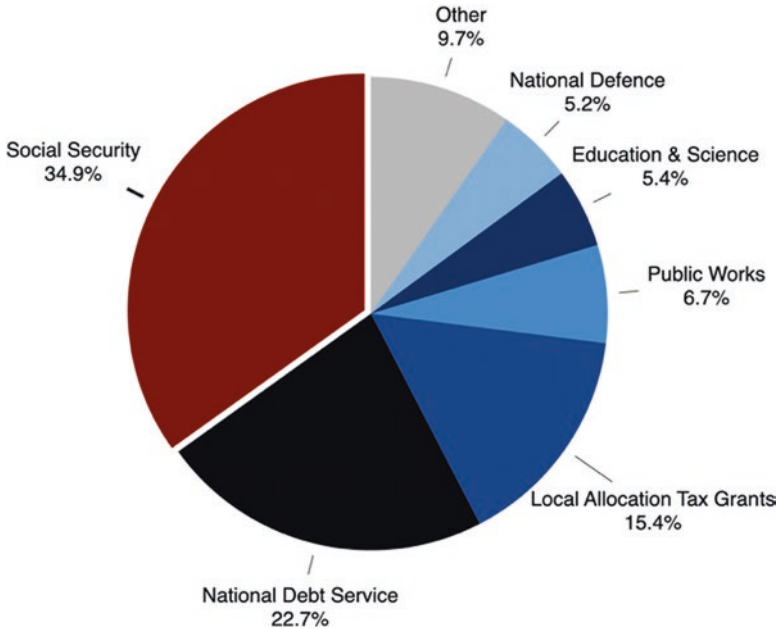


Fig. 4.7 Japanese government's general account budget expenditure (2020). *Source:* MOF (2020b)

number of foreign workers in Japan. Across the remaining sections of this chapter the effectiveness of these strategies will be assessed and discussed.

4.2 Strategy 1: Women in Japan

On many occasions, including the 2014 World Economic Forum Annual Meeting, former Prime Minister Abe Shinzo¹ (hereinafter Abe) stated that the female labor force in Japan is the country's most underutilized resource (Glosserman, 2019). The strategy of more extensively utilizing women to reduce the labor shortage has attracted enormous interest given the potential benefits. It is estimated that this strategy could lead to a gain of 5.8 million workers and a 15.0% jump in Japan's GDP from 2019 levels, if: (1) the female labor force participation rate increased to match that of men in Japan, and (2) the ratio of female versus male working hours matched the OECD average (Matsui, et al., 2019). Studies conducted in Japan (e.g., Siegel & Kodama, 2011) have demonstrated that companies with higher female manager and executive ratios perform better. Research conducted across a variety of countries has also demonstrated that, compared to men, women tend to have stronger

¹Prime Minister Abe Shinzo's keynote address at the World Economic Forum annual meeting, January 22, 2014.

marketing skills (Groysberg & Bell, 2013), have better communication skills that may improve decision-making processes (Post & Byron, 2015; Pucheta-Martínez, et al., 2018), be more creative (Huse, et al., 2009), and better understand consumer expectations (Carter, et al., 2003), especially pertaining to markets that cater to women (Daily, et al., 1999). Research has also demonstrated that having female directors tends to strengthen financial control mechanisms and reduce opportunistic behaviors (Adams & Ferreira, 2009).

Beyond the direct and immediate provision of labor and the performance benefits listed above, evidence indicates that this strategy could also elevate the fertility rate. Numerous studies (Ahn & Mira, 2002; Brehm & Engelhardt, 2015; Martínez & Iza, 2004; Rindfuss, et al., 2003) have demonstrated that fertility rates are higher in countries where female employment rates are higher (e.g., Denmark, Sweden, and the United States), than in countries where female employment rates are lower (e.g., Italy, Japan, and South Korea). Furthermore, increasing the financial well-being of women provides them with greater economic means to have and raise children. Taken together, increasing the female labor force participation would both directly and immediately, as well as potentially indirectly over time through an elevated fertility rate, reduce the labor shortage.

4.2.1 Government's Strategic Tools

Recognizing these potential benefits, in 2013 Abe launched his government's "Womenomics" initiative. The initiative is heavily based on the policy recommendations promoted by Kathy Matsui, Goldman Sachs's Chief Japan Strategist, and her team in their "Womenomics" report series (e.g., see Schad-Seifert, 2019 for a comprehensive review of the initiative). It included the following lofty goals that were to be achieved by 2020, increase the: (1) labor force participation rate of women aged 25–44 to 73.0%; (2) percentage of women in leadership positions to 30.0%; (3) percentage of women that return to the labor force after their first child to 55.0%; and (4) paternity leave rate to 13.0%. The government also set out to eliminate the childcare waitlist by 2017. However, shortly after its launch the government recognized that most of the goals would not be met by 2020 and implemented the "Fourth Basic Plan for Gender Equality" in 2015. The new plan included the revised goals of having women hold 15.0% of director and 25.0% of section chief positions in private corporations by 2020 (CAO, 2015). This plan also required large companies to establish targets for hiring and promoting women. Furthermore, it included the goal of increasing the fertility rate to 1.8 by 2025.

To provide additional support for the initiative, the government implemented a variety of measures. The "Act on Promotion of Women's Participation and Advancement in the Workplace" took effect in April 2016 (CAO, 2016a). This act requires both public and private organizations with more than 300 employees to disclose gender diversity-related data and publish diversity action plans. "Eruboshi," a certification system that recognizes companies that promote female employment

(e.g., that set high standards for retention and promotion of female employees), was established (CAO, 2016b). An amended version of the “Child and Family Care Leave Act” took effect in October 2017 (CAO, 2017b). This amended act provides the most generous paternity leave,² and one of the most generous maternity leave, programs in the world (see Zhang and Managi (2020) for a comprehensive review of the policy changes).³ The government has conducted a variety of campaigns to increase men’s awareness of these initiatives. It has also provided workshops for managers to encourage men to become proactively involved in family and home care. For example, the Ikumen project (a combination of the words *ikuji* (childcare) and *ikemen* (hunk)) launched in 2010. This project provides symposia and workshops for fathers on paternity leave, childcare, and work-life balance. An objective of the project is to promote the image of a father as a heroic figure (Goldstein-Gidoni, 2020). In December 2017, the government formulated the “New Economic Policy Package” through which it: (1) promised to add 320,000 additional childcare spots by March 2021; (2) provides free childcare for low-income families with children aged 0–2; (3) provides free childcare and kindergarten for children aged 3–5 (which began in October 2019); and (4) allows caregivers to apply for an exemption from overtime work caps (CAO, 2017c). Lastly, the “Equal Pay for Equal Work” law took effect in April 2020 for large companies and April 2021 for smaller companies. This law requires employers to explain the disparity in wages and other conditions for workers engaged in the same tasks with equal skill levels, irrespective of their contract status (CAO, 2020).

4.2.2 *Strategy Effectiveness*

From 2013 to 2019 the labor force participation rate increased from 74.3% to 81.1% for women aged 25–34, and from 71.4% to 78.6% for women aged 35–44 (see Fig. 4.8). This is a clear achievement of the first goal set by the government. During the same period, the total female labor force participation rate increased from 48.9% to 53.3%, which is 2.86 million additional workers.

Although these gains suggest that the above initiatives are paying some dividends, closer examination of the participation of women reveals that it is still a work

²“Maternity leave“ refers to the leave a woman takes from work around childbirth; its chief purpose is to help mothers recover from childbirth. “Paternity leave” refers to a father’s taking a temporary leave of absence from work to care for a newborn. “Parental leave” (equivalent to “childcare leave” in some literatures) refers to leave from work for childcare purposes; both mothers and fathers may use this benefit.

³The program funds 67.0% (up to a maximum amount of ¥301,299 per month) for the first 6 months of an employee’s maternity or paternity leave, and 50.0% (up to a maximum of ¥224,850 per month) of their salary for the remaining 6 months. Furthermore, employees on parental leave have the option of extending their leave to 24 months if they cannot find childcare. Given that social insurance premiums are waived during childcare leave, the actual amount paid is around 80% of pre-leave take home pay.

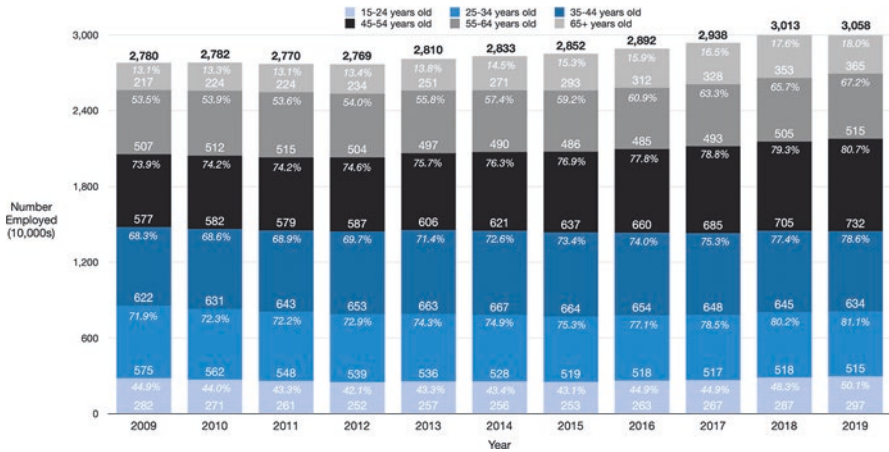


Fig. 4.8 Employed females in Japan (2009–2019). *Sources:* Compiled by the author from Tables 11 and 15 of the Labor Force Survey dataset produced by Japan’s Ministry of Health, Labor and Welfare (MHLW, 2019b)

Notes:

- (i) **Italicized numbers at the top of each column category are the labor force participation rates of the age category**
- (ii) **Non-italicized numbers at the bottom of each column category are the number employed in that category**
- (iii) **The bold numbers above each column are the total number of women employed that year**

in progress. In 2019, females held only 44.5% of the jobs despite accounting for 51.7% of the population over the age of 14. Although women are as educated, and by some measures more educated, than men (e.g., women’s rate of completing tertiary education is higher than men’s) (MEXT, 2019a), in 2019 56.0% of employed women, compared to 22.8% of employed men, held non-regular jobs (i.e., temporary, part-time, and/or contract positions). Women held 68.1% of the non-regular jobs. This is concerning given that non-regular jobs provide substantially lower wages, benefits, and security than regular jobs. Furthermore, in 2018 women held 18.3% of the section chief, 11.2% of the director, 6.6% of the department manager, and 4.1% of the executive positions in private listed companies (CAO, 2019). In large companies, such as Toyota, women held only 4.0% of the management positions in 2018 (Oda & Reynolds, 2018). Especially concerning is that in 2020 only 42.6% of surveyed companies were actively promoting women to managerial positions down from 50.0% in the previous year (Kyodo News, 2020). Female representation is even lower in government. In 2020 (November), women held only 46 (9.9%) of the 465 seats in Japan’s House of Representatives, which is the lowest ratio amongst G20 countries. Furthermore, there were only two women (Minister Hashimoto Seiko, Minister of State for Tokyo Olympics and Paralympic games, and Minister Kamikawa Yoko, Minister of Justice) in Prime Minister Suga’s 20-member cabinet in 2020. Beyond the statistics and quantitative research are recent studies that raise additional concerns. Ho (2020) in her extensive qualitative study found

that the “Womenomics” policies have actually had an effect that is opposite than that which was intended. More specifically, she found that many Japanese companies have created and appointed women to supervisory, management, and board positions that involve little responsibility or power. Although the positions carry a senior title the holders of those positions are unable to influence high-level corporate decisions to the same degree as their male counterparts. The positions are established for cosmetic reasons to enhance the company’s image and acquire government benefits (e.g., tax reductions, subsidies, awards, and public recognition). This has not only negatively impacted the mental health of many women holding these positions, but has also resulted in additional work and minimal change in compensation (Ho, 2018). The reduction in gross salaries in real terms occurs due to a loss of entitlement to overtime pay and benefits (Ogura, 2010; Takahashi, 2005). In short, Ho’s research suggests that “Womenomics” policies are set to “intensify the treatment of women as a contingent workforce and expendable resource for the economy” (Ho, 2020: 116). Taken together, despite a significant increase in the number of white-collar female workers between 2013 and 2020, women still hold very few positions of power and influence in both the corporate and government realms.

The impact of the government’s strategic tools on the fertility rate are even more disappointing. As illustrated above in Fig. 4.3, the fertility rate has not been above the 2.1 replacement level fertility rate since the early 1970s. While there was a slight uptick during the first half of the past decade (i.e., increased from 1.37 in 2009 to 1.45 in 2015) the rate has since trended downwards to 1.36 in 2019 (see Fig. 4.9).

4.2.3 Key Strategy Performance Shortfall Factors

Workplace role norms. Japanese business culture has long permeated the social attitude that male workers, often referred to as “salarymen,” should hold managerial positions. Whereas, female workers, often referred to as “office ladies,” should hold low-level clerical, secretarial, and administrative positions (Ogasawara, 1998) or “pink-collar” jobs (e.g., nurses, care workers, and cleaners). The biases and expectations behind this highly gendered division of workplace roles continue to be held by many Japanese (Aronsson, 2015). For example, a 2020 study found that only 39.0% of people surveyed in Japan stated that they would feel “very comfortable” with a woman as a CEO of a major company (Kantar Consulting, 2020). Many employers have stated that they are hesitant to consider women for managerial positions (Yamaguchi, 2014; Yashiro, 2011). Given these views, it is not surprising that, compared to their male colleagues, many equally qualified women have reported receiving less training and fewer opportunities from their employer (Ho, 2020). This is reflected in Japan’s placing 121 out of 153 countries on the World Economic Forum’s 2020 Global Gender Gap Index (WEF, 2020). This is the lowest ranking amongst Asian countries and by far the lowest of all advanced economies. As a result, many women quit their job due to dissatisfaction and the belief that their position is a “dead-end”. Many other women do not pursue regular jobs given the

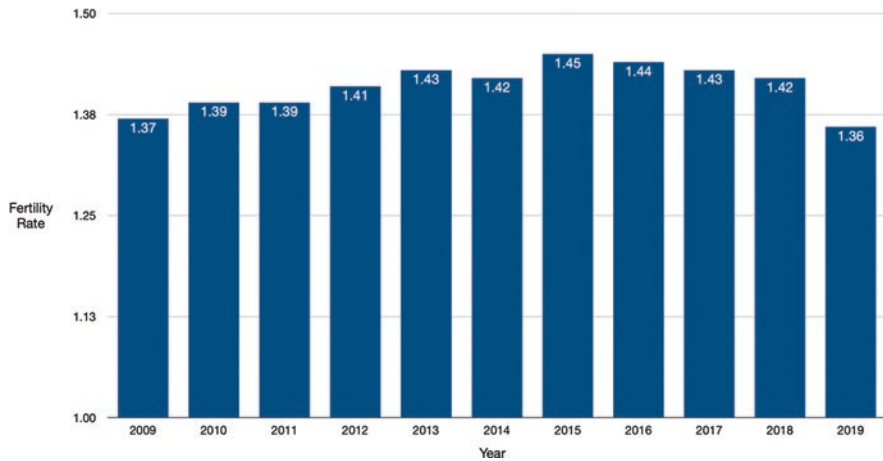


Fig. 4.9 Fertility rates in Japan (2009–2019). *Source:* MHLW (2020e)

formidable career advancement and support barriers that exist (Hewlett & Sherbin, 2011; Ho, 2020).

Work hours norms. The image of the “ideal” Japanese worker remains one who works long hours and maintains continuous full-time employment until retirement (Takami, 2019a, 2019b; van der List, 2017). Despite mounting evidence of the productivity benefits of work-life balance (Nagata, 2019), overworking remains endemic in Japan. This is due to a tendency to equate the amount of time spent at the workplace with productivity. As a result, overtime work is often used as an indicator of worker commitment and company loyalty, and a promotion determinant (Timinsky, 2019). On average, across all industries and employees in Japan, the reported percentage of workers working more than 35 h per week dropped from 73.0% in 2009 to 67.8% in 2019. In 2019, 6.5% of employees worked more than 60 h per week, down from 9.3% in 2009 (MHLW, 2020c). The reported average annual hours worked also fell from 1733 h in 2009 to 1669 in 2019 (MHLW, 2020c). However, these reductions are misleading given that: (1) the decline was primarily due to the substantial increase in non-regular jobs that have relatively short working hours (JILPT, 2020a); and (2) many overtime hours worked remained off-the-books (i.e., were not included in the official calculations). Regular employees continue to work long hours with workdays of 11–16 h being common. Many of those employees who work more than 60 h a week are concentrated in the peak childrearing ages of 25–44 (MHLW, 2020c). Regarding vacations, on average, Japanese workers do not take 50.0% of their entitled vacation days (Expedia Japan, 2020). As noted by Dalton (2017: 103), “the long-working-hours culture that characterises the private and most other sectors in Japan is detrimental to the empowerment of women.” While managerial-track (regular) jobs have gradually opened for women in recent years, the norm of working long hours makes it extremely difficult for many women to hold these track positions due to the family and home care norms.

Family and home care norms. Another long-standing social attitude is that men should work while women should care for the home (Garon, 2010). As a result, the workloads of working women are often enlarged by their also having to handle the bulk of the family and home care tasks. Compared to their full-time working husbands, full-time working wives spend approximately 500.0% more time on weekdays, and 400.0% more time on weekends, on home care tasks (e.g., cleaning and cooking) (NIPSSR, 2012). Full-time working wives also handle 90.0% of the “invisible housework” (i.e., tasks such as meal planning, which require time and thought, but are not typically included under housework) (NIPSSR, 2012).

An objective of the government’s 2016 “Plan for Dynamic Engagement of All Citizens” is that no person will be forced to leave their job to provide elder care (CAO, 2016c). The 2017 amendment of the “Child and Family Care Leave Act” provides generous child and long-term care leave options. However, childcare and nursing responsibilities continue to fall mostly on women. Amongst married couples with children under age six, wives spend on average 3 h and 45 min per day on childcare tasks, while men spend 49 min (CAO, 2019). Overall, studies (e.g., Brinton, 2017; Nagase & Brinton, 2017) that have examined combined home and childcare tasks have consistently reported that women handle 80.0–100% of the workload. These same workload disparities also exist during the period immediately following a child’s birth. Despite the very generous parental leave benefits, only 7.48% of eligible men working for private companies took paternity leave in 2019 (see Fig. 4.10) (MHLW, 2020i). While this is a notable increase from the 1.2% of eligible men that took this leave in 2008, it is still extremely low. Furthermore, amongst those few fathers that did take paternity leave in 2018, 56.9% took less than 5 days and 74.7% less than 15 days, on average (see Table 4.1) (MHLW, 2019d). Moreover, 32.0% of mothers report that their husbands do less than 2 h of housework or childcare per day while on paternity leave (Mamari, 2020).

Women often face similar childcare challenges outside of their home. Despite the government having opened more childcare spots than promised (i.e., 535,000 spots were added between 2013 and the end of 2017), waitlists remain across Japan for nursery schools, daycares, and after-school care facilities. There were 16,772

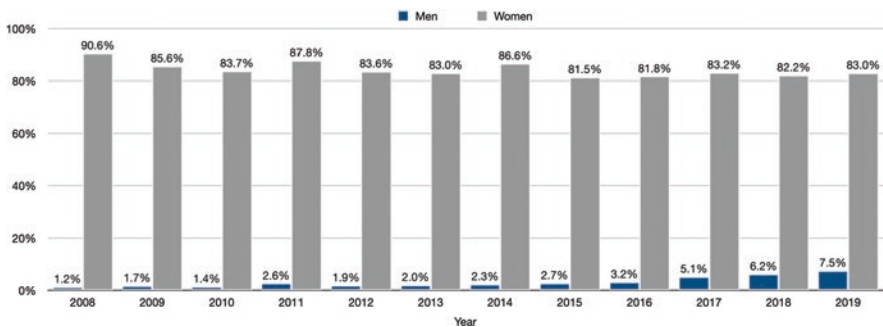


Fig. 4.10 Percentage of employees that took their entitled parental leave in Japan. *Source:* MHLW (2020i)

Table 4.1 Length of parental leave taken across the genders in Japan (2018)

	Less than 5 days	6–14 days	15–30 days	1–3 months	4–6 months	7–8 months	9–10 months	11–12 months	13–18 months	19–24 months	25–36 months	36 months
Women	0.8%	0.3%	0.6%	2.2%	7.8%	10.2%	12.7%	31.1%	27.6%	4%	2%	0.6%
Men	56.9%	17.8%	8.4%	12.1%	1.6%	0.2%	0.7%	0.1%	2%	–	–	–

Source: MHLW (2019f)

children on waitlists in 2019, 87.9% of which were under 2 years of age and most were in the urban centers (e.g., Tokyo and Osaka) (MHLW, 2019c). This of course does not account for the many parents that do not apply for spots due to their belief that spots will not become available (Unayama, 2017). This shortage is mainly due to demand for childcare having grown faster than expected. It is also due to a shortage of certified teachers (Brasor, 2019) and caregivers (Brasor, 2020). While it is too early to assess the effectiveness of the “New Economic Policy Package,” it is clear that the government will not be able to eliminate the waitlists in the near future (MHLW, 2019a).

The demands of taking on the vast majority of the household, parenting, and nursing care responsibilities drive many women to not seek employment, to leave the labor force, or to opt for non-regular jobs. For example, the top reason consistently cited by mothers who quit their job after giving birth, despite a desire to continue working, is that their working hours would make (or likely make) caring for their child infeasible (MHLW, 2019f). As of December 2019, over 700,000 women stated they must care for their child and over 150,000 stated they must care for an elderly or sick family member, as the reasons for their being unemployed despite desiring a job (MHLW, 2020g).

As illustrated in Fig. 4.11, far more women than men (e.g., 70,000 versus 2,680,000 in 2019) take on a non-regular, rather than regular, job due to housework, parenting, or nursing care demands (MHLW, 2020f). It is also apparent that both the absolute number of women and the comparison ratio with men have been increasing each year. For those women that would like to return to the labor force after taking time away from work the options are very limited. A person that leaves a regular job and withdrawals from the labor market rarely has an opportunity to return to a regular job (Yamaguchi, 2019). This is true regardless of their previous education and work experience (Yamaguchi, 2019). The fact that the percentage of workers holding regular jobs has decreased while the female labor force participation rate has increased reflects this difficulty. Taken together, as noted by Brinton and Oh (2019), a highly gendered division of household labor leads many married women to for-sake employment or regular jobs.

The family and home care issues noted above also deter many couples from having children. This is especially the case for couples that include individuals that both

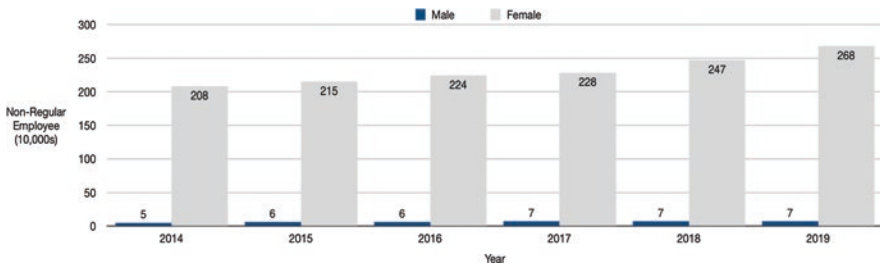


Fig. 4.11 Holding a non-regular job (rather than a regular job) due to housework, parenting or nursing care. *Source:* MHLW (2020f)

desire regular jobs. Numerous empirical studies (e.g., Cooke, 2004, 2009; Mills, et al., 2008; Oláh, 2003), including studies conducted in Japan (e.g., Mizuochi, 2010; Nagase & Brinton, 2017; Yamaguchi, 2005), have found that fertility rates are positively associated with a husband's contribution to household labor. More specifically, the likelihood that a couple has a first, second, or third child are all positively related to the degree to which the husband handles household chores.

Maternity/paternity harassment. Maternity harassment (MH), defined as the unjust workplace treatment (mentally and physically) of women for becoming pregnant and taking maternity leave, deters women from holding regular jobs. It also deters couples in which the wife or both individuals are working from having children. MH is exhibited in different ways, including forcing employees that are expecting or new mothers to: (1) quit their jobs; (2) transfer to a lower level job or department; and/or (3) change their career trajectory (Gausi, 2017; Yamaguchi, 2014). It can also take the form of verbal abuse from colleagues who believe it is unjust that they have to cover the work of a co-worker on maternity leave. The Japanese media has published stories of cases where bosses have told pregnant employees to choose between their job and child (PBS, 2017). Other reported cases have identified companies that establish schedules for when employees are permitted to become pregnant and take parental leave (Hafner, 2018). Research has consistently found that approximately 25.0% of working mothers state that they have been victims of MH (JILPT, 2016; JTUC, 2015). Kawaguchi (2019) found that regular employees are more likely to be victimized than non-regular employees. He noted that while female regular employees can have opportunities for a higher salary, promotion, and stable employment, once they become pregnant they often experience MH. Given these facts, it is not surprising that MH is a reason often provided by working mothers for not taking their entitled maternity leave, not pursuing a regular job, or for quitting their job prior to giving birth.

Men are not immune to the social pressures and harassment experienced by women related to parental leave. It is reasonable to argue that men experience even greater social pressure not to take parental leave given the deeply engrained gender-based division of roles within Japanese society. This is clearly supported by the values in Fig. 4.10, which illustrate that the percentage of male employees that take their entitled paternity leave is far lower (e.g., 76.0% lower in 2018) than female employees that have the same leave entitlement. This is also supported by research (e.g., Wayne & Cordeiro, 2003) that found, compared to mothers, fathers who had requested paternity leave were evaluated more negatively. These reactions included receiving lower evaluations for job performance (Judiesch & Lyness, 1999; Vandello, et al., 2013) and organizational commitment (Allen & Russell, 1999; Rudman & Mescher, 2013). A study (Chzhen, et al., 2019) revealed that 45.0% of male regular employees with children under 3 years of age did not want to take leave. It also found that 35.0% of this same pool of respondents stated that they wanted to take paternity leave but did not do so because of reasons such as understaffing, the company not offering it, unfavorable atmosphere (i.e., one that is against taking leave), and adverse career effects (i.e., loss of pay or promotion). Other studies (e.g., Coltrane, et al., 2013; MHLW, 2012) found that the reasons

most cited by men for not taking paternity leave is fear of losing a promotion or being viewed as uncommitted to the company. Miyajima and Yamaguchi (2017) asserted that while the majority of employed fathers would like to take paternity leave if they have a child, most fall prey to “pluralistic ignorance” (i.e., they mistakenly assume that the majority of their peers support relinquishing paternity leave and follow what they believe to be a group norm).

Taxes and allowances. The highly gendered division of the workplace and household roles also shapes tax and allowances policies. Prior to 2018 tax regulations permitted primary earners of households, the vast majority of which were male, to claim a tax deduction if their spouse earned an annual income of less than ¥1.03 million. Also, approximately 70.0% of companies granted allowances to employees whose spouse earned less than that amount. Furthermore, second earners of households were eligible for the national pension without paying premiums if their annual income was below ¥1.03 million. All of these policies incentivized women to remain unemployed or seek low-paying non-regular jobs (Thomas & O’Reilly, 2016). Recognizing this effect, the government in 2018 raised the tax deduction eligibility threshold to ¥1.5 million and eliminated it if the primary earner’s annual income exceeded ¥12.2 million (NTA, 2020). It also began requesting that companies reduce or eliminate spousal allowances. Although these initiatives were implemented to encourage greater female labor force participation their effectiveness remains unclear. Some (e.g., the OECD) argue that the tax deduction should be eliminated entirely so that both parents have similar financial incentives to work (OECD, 2018).

Compensation practices. On average, in Japan women make much less (e.g., 25.7% less in 2019) than men (MHLW, 2020b). This gender wage gap (the difference between male and female median wages) and the fact that it widens with age (MHLW, 2020b) is a product of the norms and practices discussed above. Given the widely adopted seniority-based wage and promotion practices, regular employees’ wages very typically increase as their years of service at their company increase. Non-regular employees are not only paid much less than regular employees, they also receive much smaller wage increases with age due to their being excluded from the seniority-based wage and promotion system (Yamaguchi, 2019). The lower compensation attached to non-regular jobs and the fact that often those are the only jobs available to women deter many women from entering or remaining in the labor force.

Persistent traditional gender roles. It clear that all seven of the above strategy performance shortfall factors exist because traditional gender roles persist in Japanese society. Although gender role views did become more egalitarian in the 1990s (Choe, et al., 2014; Lee, et al., 2010), surprisingly those views have become slightly more traditional, or at best remained unchanged, since the turn of the century (Fukuda, 2016). That is, the younger generation has not become more progressive (Raymo, et al., 2015; Tsuya, et al., 2012) despite the government’s many initiatives and the increase in the female labor force participation rate over the past three decades. Piotrowski (2019) argues that the continual societal emphasis on high-level maternal involvement in childrearing in Japan has maintained these

traditional views. Unlike in Western countries, much of the increase in the female labor force participation rate in Japan since the 1980s was due to unmarried women, single mothers, and married women without children entering the labor force. Mothers with young children remained at home and the majority of women exited the labor force prior to having a child (Fujimura-Fanselow, 2011; Raymo & Lim, 2011). It is the mothers' homemaking role (experienced as a child) that Piotrowski asserts has had a strong impact on gender role attitudes. Endo (2019) offers a complementary explanation in his assertion that the economic realities of post-bubble Japan (i.e., the period after 1991) and the challenges faced by women in the workplace have led many young women to idealize a traditional marriage. Supporting this explanation is the finding that more than a third of women continue to hold favorable attitudes towards being housewives and mothers (Hasunuma, 2015). They see this as a preferable alternative to pursuing a career believed to be out of reach or extremely difficult to manage (Hasunuma, 2015).

4.3 Strategy 2: Japan's Elderly

The second key labor shortage management strategy is to have Japan's elderly extend their working lives. This strategy was inspired by the fact that the Japanese are living longer, healthier lives than past generations (NIPSSR, 2019). This is attributed to a combination of factors, including a lean and well-balanced diet, an excellent medical system, a devotion to cleanliness, a strong desire to stay healthy, and a drive for living life with a sense of purpose ("ikigai" in Japanese) (Kondo, 2013). Given these longer, healthier life spans, Oshio (2019) estimated that the employment rate for the elderly could potentially be elevated significantly (see Fig. 4.12). A study by Japan's Cabinet Office (CAO, 2014) that surveyed individuals 60 years of age found that 42.0% of the respondents wanted to work as long as they are able to do so, 11.4% until the age of 75, and 21.9% until the age of 70. This suggests that a pool of elderly workers will continue to be available going forward.

This strategy has also garnered increasing attention because of a variety of potential performance benefits. It is well established that teams with greater age diversity can be more productive than teams with less age diversity. This is because workers across generations often have skill sets that complement each other. "Crystallized intelligence" (Wang & Kaufman, 1993), which includes verbal reasoning and acquired knowledge, continues to increase well beyond the age of 70 (Bryson, et al., 2019; Göbel & Zwick, 2020). This has proven to be especially the case in Japan where the elderly consistently score in the highest groups for mathematical and reading skills (OECD, 2016). The elderly also often possess the skills, knowledge, and experience needed to deliver high levels of customer service. This is particularly important given that higher value-added industries and high customer service demands characterize the Japanese market.

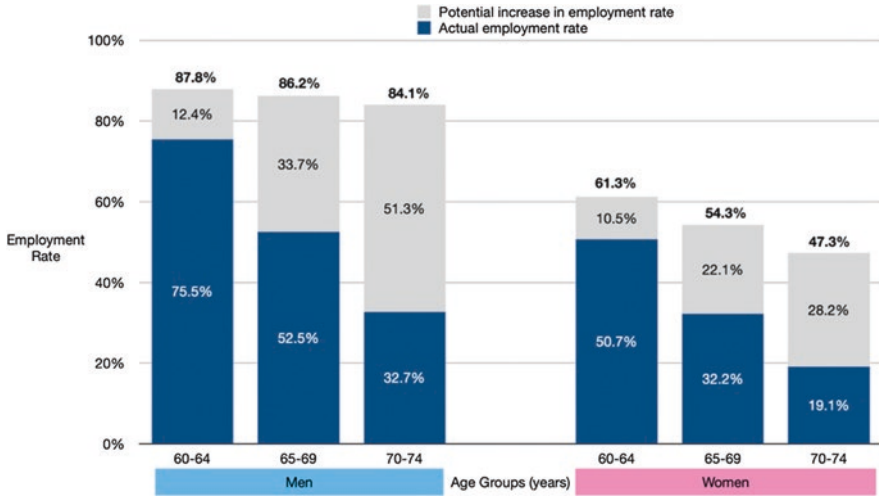


Fig. 4.12 Potential employment levels of the elderly in Japan. Source: Oshio (2019)

4.3.1 Government’s Strategic Tools

Japanese law permits, but does not require, employers to set a mandatory retirement age. However, employers (approximately 79.0%) have typically set the age at 60 (MHLW, 2017b). They do so as a way to deal with the strong employment protection regulations that make it difficult to dismiss regular employees. This is especially the case for older workers whose seniority-based wage exceeds their productivity (Miyamoto, 2016). To encourage employment of the elderly, in 2004 the government amended the 1971 “Act Concerning Stabilization of Employment of Older Persons.” The amendment requires an employer to either raise their mandatory retirement age to 65, or reemploy retired employees on a contractual basis until they are 65, if the employees would like to work beyond the age of 60 (Fujimoto, 2008). To further encourage employment of the elderly, legislation will come into effect in April 2022 that raises the *maximum* mandatory retirement age from 65 to 70. The new law will require employers to “make efforts” to secure job opportunities for their employees until they are 70 years of age if they wish to continue working. It will also require companies to choose one of the following five options: (1) eliminate the retirement age; (2) raise the retirement age; (3) allow workers to work beyond the retirement age; (4) out-source some operations to retirees who start their own business or become freelance; or (5) assign retirees to philanthropic projects run by the company (MHLW, 2019g).

Traditionally, eligible individuals could begin receiving public pension plan benefits between 60 and 70 years of age. People aged 60–64 whose monthly income (calculated based on salary and bonuses) exceeds ¥280,000 have their benefit payments reduced (–0.5% per month prior to their 65th birthday) if they start receiving benefits during that age period. People that elect to defer the start of their benefit payments beyond their 65th birthday receive a greater monthly payment (+0.7% per month that payments are deferred beyond their 65th birthday). Given that the

reduction deters many elderly employees from working, the government reformed the pension plan system in May 2020, which includes important changes that will come into effect in April 2022 (MHLW, 2020d). First, the upper age limit age at which eligible individuals can begin receiving their public pension will be raised to 75 from 70. Second, the ¥280,000 monthly income limit pertaining to benefit payment reductions will be raised to ¥470,000. Third, the payment reduction rate for advanced receipt of the benefit payments will be reduced to -0.4% from -0.5%. Thus, if a pensioner elects to receive their pension from age 60 the amount will be reduced by 24% rather than the current 30% reduction. Whereas, if a pensioner elects to receive their benefits from age 75 the pension payments will be increased by 84%.

Important changes are also coming to employees' pension plans that will affect part-time workers. Starting in October 2022 part-time workers employed at a company that has more than 100 employees will be eligible for an employee pension plan. Currently, only part-time workers at a company with more than 500 employees are eligible. This minimum threshold will be further reduced to 50 employees in October 2024.

In the context of 100-year life spans, accelerating technological change, and rapidly changing job markets, skills acquired early in life are unlikely to last an entire career (Gratton & Scott, 2017). Recognizing this fact, in 2017 the government launched programs to train employers on how to design jobs to meet elder workers' abilities. It also launched programs to train employers on how to better recruit elder workers (MHLW, 2017a).

4.3.2 *Strategy Effectiveness*

As illustrated in Fig. 4.13, from 2013 to 2019 the percentage of male and female elderly employees increased by 27.1% and 41.7%, respectively. This added 2.28 million workers to the workforce. During that same period, the percentage of the total number of jobs that were non-regular increased 1.8% (to 62.7%) and 5.5% (to 79.7%) for elderly male and female workers, respectively. This is due to the vast majority (81.3%) of companies setting the mandatory retirement age at the lowest possible age (i.e., 60), and rehiring workers as non-regular employees once they turn that age (MHLW, 2017b). Only 2.2% of companies have abolished mandatory retirement and 18.5% have raised the mandatory retirement age above the age of 60 (MHLW, 2017b).

4.3.3 *Key Strategy Performance Shortfall Factors*

While some scholars (e.g., Oshio, 2019) believe that there is room to further elevate the labor force participation rate of the elderly, caution is warranted before concluding that the employment levels presented in Fig. 4.12 are obtainable. The following factors are key challenges facing this strategy:

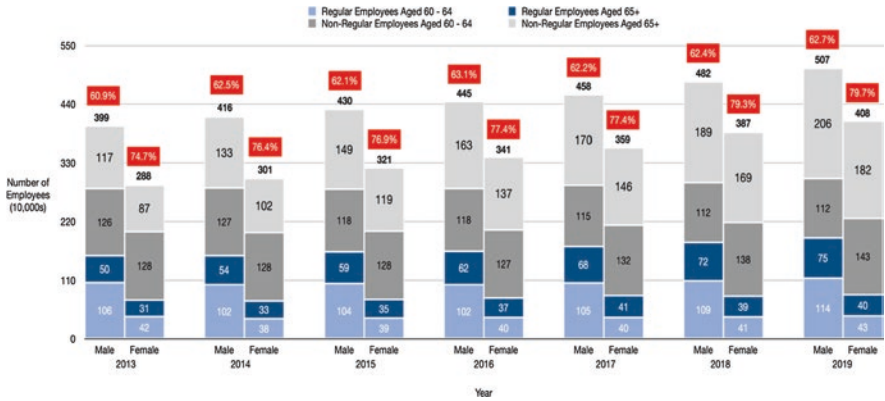


Fig. 4.13 Employed elderly in Japan. *Sources:* Compiled by the author based on data contained in Tables 18 (regular employee by age group) and 19 (non-regular employee by age group) of the Labor Force Survey produced by Japan’s Ministry of Health, Labor and Welfare (MHLW, 2019b)

Notes:

- (i) **The bold number above each column is the total number of employees in that column**
- (ii) **The number in the red boxes above each column is the percentage of jobs in that column that are non-regular jobs**

Incapacity to work. Although it is unwise to conclude that elderly workers are less productive than younger workers (Göbel & Zwick, 2020), minds and bodies do become frailer with age. It is also important to remember that not everyone ages in the same way or at the same rate. In 2019, dementia afflicted over 4.6 million Japanese and that number is projected to increase to 7.3 million (20.0% of the elderly population) by 2025 (CAO, 2017a). Even elderly persons without dementia experience a reduction in cognitive skills, such as the ability to memorize large amounts of information (Burns, et al., 2005). As people age many labor-intensive jobs become too physically demanding. In 2019, workplace accident victims over the age of 60 accounted for 26.8% of all casualties, a rate that has been steadily increasing each year (MHLW, 2020h). Hasebe and Sakai (2018) found that older workers are more likely than younger workers to have a work-related accident. They also found that the accidents are more likely to cause death to sufferers 60 years of age or older. Therefore, many elderly persons that desire employment may not have the mental or physical capacity to work.

Skills deficiency. Many elderly may lack the skill sets required for available jobs, especially those involving rapid technological change (Gratton & Scott, 2017). While lifelong learning initiatives can help address the understanding and skills shortfalls of potential elderly workers, Japan is a laggard with investing in these initiatives (OECD, 2016). This is due to the rise in the proportion of non-regular workers and the reluctance of companies to invest in training these types of workers. Not surprising, more than 66.0% of Japanese workers believe that they need further training, which is double the OECD average (OECD, 2016).

Interest in working. Although the elderly live longer, healthier lives than previous generations, many are not interested in working. As of December 2019, 510,000

unemployed Japanese over the age of 65 desired employment, whereas 2.61 million did not desire employment (MHLW, 2020a). The lack of interest is often due to one of three reasons. The first reason is that the compensation provided is unattractive. Japan is unique in setting a mandatory retirement age (i.e., 60) option below the full pension eligibility age (i.e., 65). The pension benefit claw-back that occurs for workers prior to 65 years of age penalizes those that continue to work beyond their 60th birthday. Although the recent public pension reforms included a reduction of the claw-back rate along with an increase in the monthly income limit pertaining the claw-back, a claw-back will continue to exist after the changes come into effect in April 2022. Given that the vast majority of companies keep the mandatory retirement age at 60 and rehire elderly workers as non-regular employees, most elderly workers are placed in lower status, lower paying jobs. Government surveys show that elderly workers that are rehired as a non-regular employee incur a 30.0–50.0% salary reduction (e.g., JILPT, 2020b). Whereas elderly workers rehired as a regular employee with a title and position change incur a 10.0–30.0% salary reduction (e.g., JILPT, 2020b). The second reason is that the characteristics of the job are unattractive. Elderly workers often find themselves being offered jobs that have fewer responsibilities. These jobs typically do not enable the workers to fully apply their knowledge and skillsets. The third reason is burnout. After having spent many decades working very long hours at demanding jobs many elderly are exhausted. These individuals would rather enjoy the leisure time that has finally become available in their lives.

4.4 Strategy 3: Foreign Workers

It is projected that Japan will need 10 million foreign workers by 2050 (Solomon, 2019). That need is expected to grow to 15 million workers beyond 2050 (Toshihiro, 2019). Foreign workers not only provide an immediate injection of labor, but may also help elevate the fertility rate, if permitted to remain in the country on a long-term basis. That is, they may provide future generations of workers, especially given that foreign workers are typically of childbearing age. Furthermore, in the increasingly interconnected and hyper competitive global economy foreign workers can bring substantial and tangible economic benefits to Japan. Research has shown that they enlarge the economic pie, which results in bigger, more productive economies (Jacoby, 2006). They can also drive economic dynamism through entrepreneurial pursuits. For example, Yagüe-Perales et al. (2019) noted that over 50.0% of California's Silicon Valley's engineering and technology start-ups were founded by immigrants. While both skilled and unskilled foreign workers provide a variety of benefits (Jacoby, 2006), skilled workers make the greatest contribution (Borjas, 1995). They do so through a variety of other more intangible benefits, such as adding diversity, global connections, foreign language knowledge, cultural intelligence, and international experience. An added bonus is that these many benefits tend to produce positive externalities that spill over into other sectors and regions of the host

economy (Straubhaar, 2000). Given that Japan is a highly homogenous (both ethnically and culturally) country that is very heavily involved in the continually evolving global economy, the country stands to benefit enormously from foreign workers.

4.4.1 Government's Strategic Tools

There is no question that Japan has been a difficult country for foreigners to acquire work visas. Nevertheless, the government recently implemented a variety of initiatives intended to lessen that challenge. The 2012 amendment to the “Immigration Control and Refugee Recognition Act,” which introduced a visa point system for highly skilled foreigners was again amended (which took effect in April 2019) to allow foreign workers and their families to remain in Japan for an indefinite period (MOJ, 2018a). The amendment also established a visa category (i.e., the “Specified Skilled Worker Category”) that accommodates up to 345,000 foreign “blue-collar” workers across 14 designated industries in the first 5 years of the program (MOFA, 2019b). It also included the possibility of a 5-year extension to the stay period for these workers. However, unlike with highly skilled foreigners, the “blue-collar” workers cannot be accompanied by family members. While the new system does offer “blue-collar” workers a possible path to long-term residency status, the possibility only exists in two industries: construction, and shipbuilding.

The “Technical Intern Training Act” (which took effect in November 2017) advanced the Technical Intern Training Program (TITP) that launched in the 1990s (Yoshida, 2020). This fixed-term program brought in foreign trainees to work in different sectors (e.g., assembly and welding, machinery and metal, construction, food processing, textile, and agriculture and fishery). These visas are mainly intended for work in non-professional fields completed by unskilled labor. The vast majority of the trainee-accepting companies are small businesses located in rural areas (OTIT, 2020). The prior program was criticized for capping worker numbers at each business, limiting their stay to 3 years, limiting the number of eligible job types, and overlooking labor exploitation and rights violations. In June 2018, the government initiated additional steps to loosen restrictions on the admission and use of foreign low-skilled labor. It extended the maximum period of stay from 3 to 5 years for many foreign trainees, eliminated the restriction on the number of foreign workers at a given farm or facility, mandated the use of authorized recruitment agencies, established an oversight apparatus to ensure labor standards compliance, and unveiled plans to admit lower skilled foreign workers in other industries facing acute labor shortages.

In 2008, the government introduced a plan to bring 300,000 foreign students to the country by 2020. This was promoted as a global strategy initiative to attract exceptional foreign students. The intention is to acquire individuals that would provide both an immediate and longer term contribution of skilled labor to the workforce. The immediate impact is made possible by permitting student visa holders to work up to 28 h per week.

Recent trade deals and talks also hold promise for attracting foreign workers. For example, the “Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP),” which took effect in December 2018, provides the citizens of the 11 member nations (Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam) with priority access to the Japanese labor market (MOFA, 2018). This is a significant step given that, at the time of signing, the CPTPP created a free-trade zone housing approximately 507 million people and a combined GDP of approximately US\$11.2 trillion (Wu & Chadee, 2021).

In 2018, the government also took steps intended to help support foreign workers. The “Comprehensive Measures for the Acceptance and Coexistence of Foreign Nationals” cabinet policy document, approved in December 2018, includes a variety of support and integration measures that aim to provide foreign workers with more rights (MOJ, 2018b). More specifically, it calls for equal wages between foreign and Japanese born workers holding the same job. It also provides support services (e.g., language learning and translation services) for foreign workers (MOJ, 2018b). The government also created the “Immigration Services Agency” to foster collaboration between governments and private sector partners whose activities engage foreign workers.

4.4.2 Strategy Effectiveness

In 2019, foreign worker and resident numbers hit record highs of 1,659,804 and 2,829,416 people, respectively (see Fig. 4.14). This is an increase of 1,096,986 foreign workers and 839,941 foreign residents since 2009. In 2019, the number of trainees brought into the country under the TITP program reached 308,489, which was an increase of 24.5% from the previous year (Yoshida, 2020). Although it is too early to assess the impact of the 2019 policy amendments that introduced the “Specified

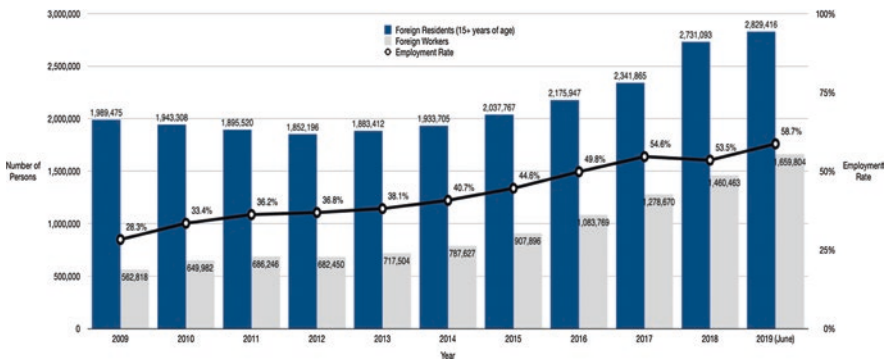


Fig. 4.14 Foreign worker, resident, and employment rates in Japan (2009–2019). Sources: Data compiled by the author from datasets produced by Japan’s Ministry of Health, Labor and Welfare (MHLW, 2019h) and Ministry of Justice (MOJ, 2019a)

Skilled Worker Category,” the inflow of foreign workers in the first 8 months following their launch (and before Covid-19 impacted travel) totaled 1,600. This number is far below the 47,500 anticipated in the program’s first year (MHLW, 2019h). Foreign student numbers have jumped from 131,789 (6.3% of the foreign population) in 2006 to 336,847 (11.9% of the foreign population) in 2019, which was also a new high (MIAC, 2020b). Japan’s refugee population is extremely small as very few refugees are accepted (e.g., a total of 232 between 2009 and 2019) (MOJ, 2020).

The success of the policy initiatives discussed above will depend on their effectiveness in attracting and retaining foreign workers that meet labor market needs. While at face value the increases noted above appear very positive, the devil is in the details. Despite the increase in foreign resident numbers, the total number accounts for just over 2.0% of Japan’s population. Also, the vast majority of the foreign workers continue to come from the same few countries. China and Vietnam are by far the two top sources of foreign workers (e.g., in 2019 supplying 25.5% and 24.2%, respectively), while the vast majority of the remaining workers come from other Asian countries (see Fig. 4.15). This indicates that an extremely large number of workers outside of Japan continue to opt not to work in Japan. By failing to tap into this larger foreign labor pool Japan fails to benefit from the enormous diversity in perspectives, experience, understanding, and skillsets that exists amongst the members of this pool. The majority of foreign workers that do opt to work in Japan hold low-skill, low-paying jobs. Even amongst skilled workers, many hold positions of lower rank than would be expected given their skill level. Japan also continues to

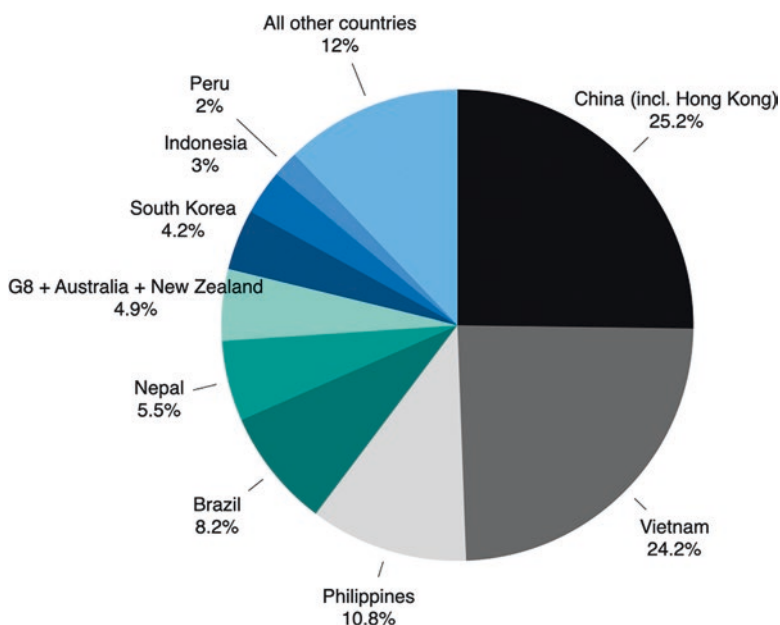


Fig. 4.15 Home countries of foreign workers in Japan (2019). *Source:* MHLW (2019h)

Note: Percentages indicate the percentage of the foreign worker population in Japan

have fewer foreign executives than any other OECD country (OECD, 2019). Regarding retention, a large majority of skilled foreign workers leave Japan within 5 years (72.0% of workers) and within 10 years (88.0% of workers) of arriving in the country (Cornish, 2019). Adding to the concern is a Japanese brain drain (e.g., 1.41 million Japanese lived overseas in 2019) (MOFA, 2020).

According to the Ministry of Health, Labor and Welfare 19.0% of all foreign workers were foreign students as of the end of October 2019. The student program is proving to be a front for admitting large numbers of unskilled workers under the label of foreign students. Foreign students typically work in restaurants, cafés, and convenience stores. After graduating, many of those former students do not find employment in Japan. For example, 43.0% of foreign graduates found employment in Japan in 2018 compared to 98.0% of Japanese graduates (MEXT, 2018). Those that do find a job typically hold low-skill, low-paying jobs at small businesses that offer poor career prospects with no long-term employment security. This is mainly due to a serious skills mismatch between the foreign students' specialties and the needs of the labor market. As noted by the Asian Development Bank Institute (2015), few foreign students are completing their studies and obtaining degrees in those fields that are in most need of highly skilled workers (e.g., the IT, engineering, health care, software, and R&D sectors) (Kwon, 2019). Furthermore, like foreign workers, the vast majority of the foreign students come from other Asian countries, most notably China and Vietnam (e.g., in 2019 supplying 39.9% and 23.5%, respectively) (see Fig. 4.16).

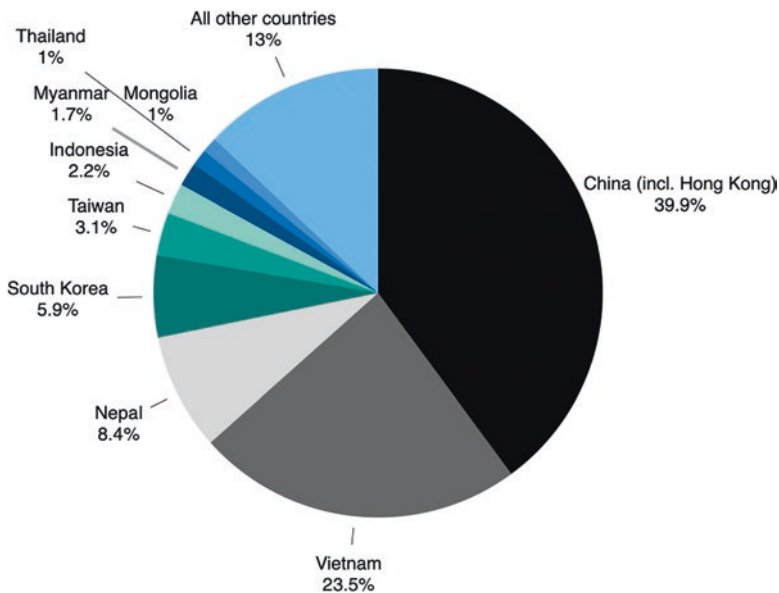


Fig. 4.16 Home countries of foreign students in Japan (2019). *Source:* JASSO (2019)
Note: Percentages indicate the percentage of the foreign student population in Japan

4.4.3 Key Strategy Performance Shortfall Factors

Political and social resistance. Immigration has long been considered a political third rail in Japan. As a result, the country remains the only developed nation without an official immigration policy. Abe stated when discussing the various options available to deal with Japan's population decline: "Before accepting immigrants or refugees, we need to have more activities by women, elderly people, and we must raise our birth rate" (PMO, 2015). Abe has asserted that his government's recent policy changes do not establish an immigration policy (Deguchi, 2018). He has also stated that the policies are not designed to facilitate the permanent settlement of foreigners in Japan (Deguchi, 2018). The resistance to immigration is also apparent in Nishimura Yasutoshi's (a Japanese Cabinet Minister at the time) statement to the Financial Times in 2014 that "We don't use the word immigration. There is still a strong insular mentality." (Soble, 2014). The Ministry of Justice has been a particularly strong opponent of immigration policies and continues to push for more stringent controls.

Fortunately, research on the determinants of attitudes on immigration (e.g., Brader, et al., 2008; Sides & Citrin, 2007), including empirical studies in Japan, demonstrate that "exposure to positive information can lead to a sizable increase in support for allowing more immigrants into the country" (Facchini, et al., 2016: 31). There is some recent evidence that this type of mindset shift amongst Japanese regarding anti-immigration views is currently underway, albeit slowly. Government officials recently stated that foreign workers can provide a potentially important contribution to the economy. Officials also stated that foreigners must be encouraged to remain in Japan on a longer term basis. For example, in 2018 Prime Minister Suga, who was then Japan's Chief Cabinet Secretary, stated that one of the mandates of the Immigration Bureau is to create foreigner-friendly environments so that "[they] will gladly come, work, and live in Japan" (Urano, 2018). A 2018 study conducted by the Pew Research Center, a nonpartisan fact tank, found that 59.0% of surveyed Japanese view immigrants as a strength while 31.0% viewed them as a burden (Pew Research Center, 2018). Although there are signs that things are moving in the right direction, it is clear that much more needs to occur before foreign workers feel that they are accepted members of Japanese society.

Integration difficulties. For this strategy to succeed foreign workers must be able to build rewarding and productive lives as members of Japanese society. That very much depends on their being able to integrate in their workplaces and communities. Unfortunately, Japan is consistently ranked very poorly by foreign workers regarding integration. For example, Japan placed 31 out of 40 countries on HSBC's 2020 "Expatriate Explorer Survey" rankings, which is an annual multidimensional assessment by expatriates of the attractiveness of countries as destinations for work and living (HSBC, 2020). Included in the survey are a diverse collection of countries that span the globe and cultural spectrum, including both developed (e.g., Canada, France, and Singapore) and developing economies (e.g., India, Mexico, and Vietnam). Japan's very poor ranking is partly due to its placing second to last (39)

on the “making friends” criteria. A key factor responsible for this placement is what is known as an *uchi-soto* mentality. Human relations amongst Japanese are very much influenced by a consciousness of being inside (*uchi*) and outside (*soto*) groups. This culturally driven consciousness leads to the development of strict relational boundaries. These boundaries underlie social organization and identity within Japanese society. *Uchi*, which defines the boundary of an inside group, is a primary locus of membership and belongingness. The desirability of *uchi* builds a strong collective consciousness given that it evokes feelings of safety, comfort, and familiarity. Whereas, fears of *soto* groups, due to their being perceived as strange and/or a threat to the social order or ways of life, lead to the creation of social walls and distancing (Hendry, 2013). As Weiner (1997) noted, “the conception of ‘Japaneseness’ is strongly tied to notions of ‘uchi’ and ‘soto’.” Fukuoka (2000) developed eight degrees of concepts of “belongingness” to Japanese society that most Japanese have in their minds. Three criteria used to determine the degrees of belongingness are lineage (i.e., an indicator being Japanese blood), culture (an indicator being Japanese values, customs, and lifestyles, as well as speaking Japanese) and nationality (an indicator being Japanese nationality). Foreigners, through their embodiment of *soto* (outsider) traits, typically find themselves separated by many degrees of belongingness from the locals in Japan (Bachnik & Quinn Jr, 1994). This separation presents formidable workplace and societal integration challenges, which are often reflected in expats’ comments such as “It takes a long time to get to know people in Japan.”

The Japanese language is another major integration challenge. In 2020, Japan ranked 55 out of 100 non-English speaking countries and regions for English language abilities (Education First, 2020). This is a lower ranking than almost all other Asian countries, including China, South Korea, and Vietnam. The Institute for International Business Communication (IIBC), which runs the TOEIC English test, found that 67.0% of surveyed companies in Japan believed that English was the skill most lacking at their company (IIBC, 2019). This is also reflected in the 2019 Institute for Management Development’s (IMD) “World Talent Ranking” report, which assesses how countries develop, attract, and retain highly skilled professionals. Japan placed 62 out of 63 countries on the “language skills are meeting the needs of enterprises” item. This contributed to Japan’s poor placement (54) on the readiness factor (i.e., the extent to which the country has the skills and competencies) for highly skilled foreign talent (IMD, 2020). Given that a small percentage of the Japanese population understand a second language, being proficient in Japanese is essential (Kopp, 2019). It is well understood that “linguistic assimilation facilitates integration with the broader society” (Brody, 2002: 6). However, this is especially true in Japan given the great degree to which the Japanese language is so tightly woven into the country’s national culture and social fabric. Given these facts, it is not surprising that Japanese language proficiency was found to be a crucial part of an expat’s adjustment in Japan (Peltokorpi, 2008). Unfortunately, Japanese is one of the most difficult languages to learn, especially for native English speakers (Foreign Services Institute, 2020). Becoming proficient in reading and writing Japanese is a particularly formidable linguistic challenge (Paxton, 2019). As a

result, the language barrier continues to drive many foreign workers to quit their jobs or avoid longer term employment (Huang, et al., 2020). Many others are pushed out of the country by the Japanese language exam, which is required of many foreign workers and has a 70.7% failure rate (as of July 2019) (MOFA, 2019a).

The language barrier faced by the accompanying children of foreign workers may be an even greater impediment for this strategy. In 2018, there were 50,759 students in Japanese public schools that required remedial Japanese language instruction, which was an increase of 17,575 from 2015 (MEXT, 2019b). Of the students requiring remediation who graduated in 2017, 18.2% of them were unemployed, compared with a 6.7% overall rate (MEXT, 2019b). Also, amongst this group only 42.2% subsequently enrolled in a postsecondary institution, compared with 71.1% of all high school graduates (MEXT, 2019b). Furthermore, children that have a foreign parent have a higher dropout rate than children whose parents are Japanese (Miyajima, 2010). Given that poor communication skills undermine the development of social ties, these children often find themselves socially isolated and bullied (O'Keefe, 2019). This has driven many foreign workers to quit their jobs and leave the country.

Japanese national culture includes a wide variety of values, attitudes, beliefs, behaviors, and rituals that are often not easily understood by, nor apparent to, foreigners. Cross-cultural adjustment, which refers to the degree to which someone is psychologically comfortable and familiar with different aspects of a foreign culture (Black, et al., 1991), is particularly challenging for foreigners in Japan. Given that business culture is an offshoot of national culture, foreign workers often have great difficulty adjusting to work norms and practices. Examples of the more commonly noted challenging norms and practices include the strong emphasis placed on process (i.e., the actual process often being more important than the end result), the collective aspects of decision-making (Taplin, 2013), the group over the individual, and long-term commitment (Ford & Honeycutt, 1992). The lack of work-life balance is also a particularly significant challenge for foreign workers in recent years (Asis & Carandang, 2020). Capturing this is Japan's last place (40) ranking on the "work-life balance" criterion within HSBC's 2020 "Expat Explorer Survey." As a result, foreign (especially Western) workers have experienced "negative assimilation" (Chiswick, 2011, 2012). That is, despite having readily transferable skills, their earnings have decreased with the duration of their stay in the country (Takenaka, et al., 2016).

The fact is foreigner integration policies remain underdeveloped. This is especially concerning given that the ethnic composition of Japanese society consists of 97.8% people of Japanese origin (as of January 2020) (MIAC, 2020a). The Ministry of Economy, Trade, and Industry has noted that foreign workers are often not offered relatively high-ranked jobs because they require Japanese language proficiency, cultural skills, and knowledge of Japanese business practices. Also concerning is evidence that the recent spike in tourist and long-term foreign resident numbers has not stimulated interest in interacting with foreigners (NHK, 2019). Given all of these facts it not surprising that Japan placed very poorly (54 out of 63 countries) on the IMD "World Talent Ranking" report criterion that assessed the extent to which

foreign highly skilled personnel are attracted to the country's business environment (IMD, 2020). In sum, integration difficulties remain a key challenge facing this labor shortage management strategy.

Marginalization. The relatively few foreign workers that are able to acquire a mid- or higher level position often find themselves being informally placed in a separate career track than Japanese workers (Kwon, 2019). This career track usually offers fewer promotion opportunities. Foreign workers are also concentrated across a limited number of occupational categories (Holbrow & Nagayoshi, 2018). The unskilled workers, on the other hand, are commonly found in what is referred to as the 3K occupations, which stands for kitanai (dirty), kitsui (difficult), and kiken (dangerous) (Liu-Farrer, 2009; Tsuda, 1999). These occupations are made more readily available to foreigners because the work is considered undesirable by the native Japanese (Athukorala, 2006). This has led many foreign workers to complain about being marginalized and discriminated against (Fernando, et al., 2016). The marginalization and discrimination perceptions have not only driven foreign workers out of the labor force, but have also deterred others from seeking employment in Japan.

Financial challenges. Japanese employers tend to hire graduates straight out of school (e.g., colleges and universities). Employers also often expect them to stay with the company for many years, if not their entire career. The graduates are initially hired with very low salaries, which increase with their tenure at the company (Hirasawa, 2016). Managers and executives are paid, on average, lower salaries than their Western counterparts (Pan & Zhou, 2018). These promote-from-within and compensation practices serve to limit the number of skilled foreign workers considered by Japanese companies. These practices also deter skilled foreign workers from considering Japanese companies. Foreign workers are typically more accustomed to a system in which job-hopping is a key to career advancement (Oishi, 2012). Foreign workers also tend to have a greater financial burden due to being excluded from many social security benefits, including pension and health care programs (Oishi, 2012). The uncompetitive compensation packages are made even more unattractive by the high cost of living in Japan. For example, Tokyo consistently ranks in the top three cities on Mercer's "Cost of Living City Ranking," which reflects the relatively high costs for expats in Japan (Mercer, 2020). Given these costs, it is not surprising that Japan placed 59 out of 63 countries regarding the appeal of its cost of living to foreign workers on IMD's "World Talent Ranking" (IMD, 2020).

4.5 Discussion

In the decades ahead, the populations of many Asia Pacific region countries will undergo the fastest and most extensive aging on the planet (United Nations, 2019a). Although China has just begun aging rapidly, it will age at a faster pace than Japan and have the world's largest elderly population. For example, it is projected that in

2044 China's elderly population will be 8.8 times larger than Japan's elderly population (Chen, et al., 2019). Even the many Southeast Asian countries that currently have relatively young populations will soon be home to rapidly aging populations (Phillips, 2018). As a result, the Asia Pacific region will face labor shortages associated with aging that surpass those faced by Europe and North America (Klassen, et al., 2018). By assessing the strategic approach adopted by Japan to manage its demographically driven labor shortage, we may gain valuable insights that could benefit other countries, investors, companies, and managers going forward.

The first strategy examined in this chapter (i.e., utilizing women in Japan) presents both the greatest potential benefits and greatest challenges. While the government has taken many steps to incentivize employers to hire and promote more women, and enacted legislation to elevate the fertility rate, the results have been far from encouraging. Women continue to be greatly underutilized in regular jobs and leadership positions while the fertility rate trends downwards. Workplace role norms, work hours norms, family and home care norms, maternity/paternity harassment, taxes and allowances, and compensation practices are collectively undermining the success of this strategy. These negative effects are heightened by the mutually complementary manner in which the factors relate to one another. Relations that are very much sustained by persistent traditional gender roles. For example, companies are much less inclined to support and promote female workers because they believe they will later quit, then women later quit because of the lack of support and opportunity provided. As Yamaguchi (2019) notes, the highly gendered division of workplace and household roles interact to become a type of self-fulfilling prophecy. Furthermore, as long as women in Japan continue to be forced to choose between having a career and motherhood, there is little hope that the employing of more women will elevate the fertility rate.

The second strategy examined in this chapter (i.e., utilizing elderly persons in Japan) does show promise going forward. The government appears to be committed to promoting an "ageless society" (i.e., a society in which people aged 65 or older will not be automatically regarded as seniors, but rather will be encouraged to stay healthy and work). The society as a whole is also increasingly interested in fitness, nutrition, and other health support initiatives for a healthier lifestyle. That is, notable strides are being taken to address work incapacity issues. However, many jobs and responsibilities remain misaligned with the abilities and productivity levels of the elderly. Many of those elderly workers that are interested in working continue to be offered the less enticing non-regular jobs that fail to capitalize on their skill sets. The vast majority of elderly workers also experience notable wage reductions, which are often not offset by public pension benefits due to the benefit payment claw-backs. All of these factors of course continue to deter many elderly persons from joining or remaining in the labor force.

The third strategy examined in this chapter (i.e., utilizing foreign workers) is one that has been adopted by many other developed nations to manage labor shortage challenges. It is often adopted as a core strategy given the enormous potential benefits that may be gained. There is no doubt that those benefits could also help Japan lessen its labor shortage and prosper economically. The added diversity alone would

bring a wealth of new perspectives, information, knowledge, technology, and many other assets to the relatively insular and very homogenous Japanese workforce and society. Foreign workers also stand to benefit should they and their families be able to thrive in a nation that has so much to offer. Unfortunately, this appears to be the least favored (politically and socially) of the strategies and integration difficulties, marginalization, and financial challenges continue to undermine its success. If these hurdles are not overcome soon Japan will find its rapidly aging neighbors (e.g., China, South Korea, and Taiwan) attracting the top foreign human capital.

4.5.1 The Root Causes

Despite the many hurdles, all is not grim. For the most part, the initiatives have moved the dial in the right direction, albeit slightly. However, for the full potential of the strategies to be realized focus needs to shift from the symptoms to the root causes of the problem. One of those root causes is the employment system. It is the machine through which gender-, age-, and foreigner-discriminatory practices in the labor market continue. Within this machine the seniority-based wage and promotion system stands out as the component that is most in need of changing. This system is very much responsible for the proliferation of non-regular jobs, the exclusionary practices within the labor market, and the inequality that, through disadvantaging many groups, acts as a strong deterrent of would-be workers. Orchestrating the required employment system changes is of course much easier said than done. This is especially true given that the biases fueling the system are very institutionalized in Japanese society and embedded within the mindsets of most Japanese. For real and lasting change to occur a shift in mentality needs to take place. While it is true that such a shift may be steered by well-crafted government initiatives, in a homogenous and insular society it is especially important that the government adamantly support those initiatives. Doing so demonstrates conviction and commitment. Unfortunately, the support exhibited by the government to date has been lackluster at best. As illustrated in this chapter, many of the initiatives do not entail mandatory behaviors nor have any noncompliance penalties. For those initiatives that do have noncompliance penalties, many violations go unpunished given poor monitoring (Kyodo, 2019). Even when the government is aware of violations sufficient penalties are often not imposed (Yamakawa, 2016). On the rare occasion when a company is penalized the penalty typically amounts to little more than a slap on the wrist. Furthermore, labor laws remain biased towards employers at the expense of workers (Yashiro, 2018). Ho (2020) took this claim a step further with her assertion that the policies introduced as part of the “Womenomics” initiative empower corporations and disempower workers. Also discouraging is that the government has not led by example. In short, the actions of the government have not matched its policies and rhetoric. This is a second root cause that must be addressed if the strategies are going to succeed. This cause does raise the question: Why has the Japanese government not adequately supported its own initiatives?

4.5.2 *Inadequate Government Support Reasons*

The lack of support is likely due to a variety of reasons, including the following:

Business community sentiment. Many of the initiatives have not been supported by employers (Ip, 2019). Although labor unions have been more supportive of most initiatives, particularly those pertaining to the employment of women and the elderly, that support carries relatively little weight. Most workers (e.g., non-regular workers) are not represented by a union. That is, those most likely to be harmed by policy noncompliance are not finding much assistance from organized labor groups. For those workers that are represented by unions, since the 1950s labor union power and representation has consistently decreased (Kubo, 2019). Regarding the strategy of utilizing foreign workers, unions have opposed the initiatives given that they see foreign workers as a threat to their members' job security. Taken together, the business community has not put pressure on the government to support its initiatives.

Silver democracy. Younger citizens are politically marginalized as the elderly population wields the greatest political power in Japan (Sota, 2018). This results from the increase in the ratio of elderly voters in the population and that a large proportion of the elderly population votes (Okamoto, 2020a). The growing imbalance in political power between the younger and older citizens is leading to what is referred to as a "silver democracy" era (i.e., an era when political processes result in policies that primarily benefit the elderly) (Seo, 2017). Politicians have already been very supportive of elderly-friendly issues (e.g., healthy aging programs). This political marginalization has meant, and will continue to mean, that the interests of the younger citizens will take a back seat to those of the elderly. This results in many of the above initiatives that would likely be the most effective in lessening the labor shortage receiving inadequate government support. For example, although increasing child-care subsidies and decreasing public pension benefits would be particularly effective policies for dealing with the labor shortage (Okamoto, 2020b), they continue to be inadequately supported by the government. The power position of the elderly also does not bode well for pro-immigration policies. Llewelyn and Hirano (2009) found that compared to Generation Y Japanese, older Japanese are on average less open-minded and more resistant to policies that admit more foreigners. They are less likely to view immigration as beneficial from the standpoint of making Japan more international and multicultural (Llewelyn & Hirano, 2009). The elderly are also more likely to see immigration as a threat to the Japanese way of life and ethnicity (Ip, 2019; Toshihiro, 2017). This view has been reinforced by very vocal ultra-nationalist groups that are especially critical of Japan's neighboring countries (Koo, 2020).

Public security. The vocal ultra-nationalist groups have also sparked public security concerns amongst the Japanese. Many people have vocalized their perception that increased immigration threatens public security (i.e., increases crime rates) (Chiavacci, 2012; Llewelyn & Hirano, 2009). Although that perception has changed slightly for the positive in recent years, studies (Pew Research Center, 2018) indicate that many Japanese (i.e., 40.0% of respondents) still agree with the statement that "immigrants in Japan are more to blame for crime than other groups." The fact

is public safety has not deteriorated as foreigner numbers have increased (e.g., crime rates hit a post-WWII low in 2019) (MOJ, 2019b). However, the perception that immigrants threaten public security persists due to sensationalized media coverage of crimes involving foreigners, as well as distorted reports of crime statistics (Arudou, 2017). The relatively very high risk aversion (uncertainty avoidance) of the Japanese (Hofstede, 1980, 2001; Merkin, 2006) along with their uchi-soto mentality (Fukuoka, 2000) also likely serve to spur these perceptions.

Fiscal health. Some of the government initiatives are viewed by some as a threat to the fiscal health of the country. For example, there is concern that foreigners, rather than contributing positively to the government's coffers, will elevate social security (e.g., pension and medical insurance costs) and education costs (Urano, 2018). The fact that the number of foreigners claiming social welfare has been increasing each year has fueled this concern (Osumi, 2018).

Bureaucracy. The decision-making process commonly used in Japan results in a great deal of discussion and debate (Taplin, 2013). This process is especially slow in government given the sheer size of the bureaucracy (Shimizu, 2020). Decisions and actions pertaining to the initiatives examined in this chapter are occurring at an even slower pace than usual given the contention surrounding the issues. Many strong opposing perspectives regarding the initiatives exist within the ruling LDP party (Chiavacci, 2011). This division within the government coupled with the sentiments and concerns noted above are very likely a reason for the lackluster support.

4.5.3 *Going Forward*

Although a detailed discussion of what Japan should do going forward is beyond the scope of this chapter, the following comments are provided to highlight the lessons learned and hopefully guide future research. There is no doubt that Japan requires an employment system that better fits its labor market needs and global trends. The three strategies examined in this chapter have the potential to effectively manage the country's labor shortage situation. However, for that potential to be realized the specific initiatives (tools) encapsulated within each strategy must fit well with the employment system. The government has not erred in its choice of strategies. Rather, it has missed the mark in its selection and implementation of some of the initiatives. Highly formal and systematic recruitment, compensation, and career advancement practices that limit individual discretion are associated with greater diversity in higher level company positions, smaller wage gaps across marginalized groups, and enhanced representation of those groups in companies (Pager & Shepherd, 2008). Given that all three of these practice categories are tied to and affected by the seniority-based wage and promotion system, a better understanding of how this system should change would be helpful. For example, future studies could identify the best ways to incentivize companies to look beyond stereotypical male Japanese graduates when recruiting. Research could also focus on developing practices that provide the disadvantaged, yet valuable, workers with greater

bargaining power and representation within Japanese companies and society. Perhaps quotas tied to gender, age, and national origin, given their potential to generate voice and visibility, are a viable option.

Another key lesson learned is that government support is critical to the success of these strategies. An otherwise excellent initiative (e.g., policy) has little value if it is not embraced and followed by all key stakeholders. Many of the targets set in the examined initiatives were missed because of policy noncompliance. Thus, the government should consider establishing more stringent measures for those initiatives lacking compliance. An example of such a measure is making maternity/paternity leave mandatory. The government also needs to better monitor employers and apply harsher penalties when policy violations occur. Future research could determine which labor laws need amending and how those laws should be amended (e.g., determine which penalties would best ensure compliance). That being said, using many sticks and few carrots is very likely not the way to proceed. Therefore, it would be helpful if future research strived to identify and develop reward programs that better encourage employers to provide regular jobs for women, elderly persons, and foreign workers. Jobs for which the salaries and responsibilities are better aligned with the abilities and qualifications of the workers. Employers must understand the long-term benefits to be had by not pushing workers into non-regular jobs that fail to capitalize on their skillsets. They also must understand the benefits diversity offers their company and the broader society. Education programs (e.g., marketing campaigns and workshops) could go a long way towards achieving the required mentality shift to gain buy-in amongst the key stakeholders (i.e., the business community and elderly persons, in particular). The importance of having the key stakeholders onboard cannot be overstated. As was evident in the above analysis, many of the reasons for inadequate government support involved a lack of strategy buy-in or outright opposition amongst the key stakeholders. Thus, the government should not only take care to develop strategically sound, equitable, and well-articulated policies, but to also proactively educate the stakeholders on the benefits of the policies. Scholars could be an enormous help with this task by conducting research that identifies the best practices for achieving stakeholder buy-in.

It is of course unfair to put everything on the government. Nor is it a recipe for success. Companies have both a responsibility and incredible opportunity to increase the likelihood that the adopted strategies succeed. Foreign companies in Japan have been leading the way on this front. For example, Duignan and Iaquinto (2005) found that female Japanese employees working for foreign companies generally evaluated their work environment higher than their female counterparts in Japanese companies. More specifically, Japanese females in foreign companies rated the training they received and the future career prospects higher. The representation of women in management positions was also greater at foreign companies. As awareness of such practices spreads, a growing number of Japanese women have shied away from Japanese employers and joined foreign corporations (Ho, 2018). Microsoft Japan recently opened the eyes of many in Japan to the potential productivity benefits of work-life balance initiatives. It did so when its adoption of a mandatory four-day work week while maintaining its employees' normal 5-day paycheck resulted in substantial financial gains (Nagata, 2019). More specifically, the adoption resulted

in a 40.0% productivity boost and a significant reduction in a variety of operational costs (e.g., a 23.0% decrease in electricity costs). Through adopting practices that are in line with the government's initiatives foreign companies are providing a benchmark for Japanese companies. Therefore, the government should strive to use these foreign companies as role models. Also, by further encouraging foreign direct investment and, in doing so, increasing the number of foreigners the government could advance the mandate of the third strategy. Research in Japan has demonstrated that contact with foreigners (Mazumi, 2016) is strongly associated with positive perceptions toward immigrants. Thus, as interaction with foreigners increases so too should the stakeholder resistance to many of the government's initiatives. This provides even more reason for companies and the government to offer programs that teach effective intercultural interactions. English language program investments for the Japanese could also be very beneficial. Studies have found that English conversation ability amongst Japanese is associated with positive perceptions toward immigrants (Green & Kadoya, 2013).

Although the above findings are encouraging and reason to believe that foreign companies can help elevate the labor force participation rate of women, elderly persons, and foreign workers, expectations should be kept in check. Compared to domestic companies, foreign companies are much smaller and are engaged in far fewer activities in Japan (Bozkurt, 2012). As a result, the career paths offered to workers at foreign companies are quite limited despite any greater openness to providing occupational development opportunities. Overall, foreign companies are also weaker recruiters given their smaller size and relatively lower prestige in the local market (Ono, 2007). Language and cultural barriers also deter some otherwise high quality Japanese applicants from applying for a position at a foreign company. This often makes it more difficult for these companies to attract the top talent despite the opportunities offered. Furthermore, not all foreign companies operate in a manner that is notably different than domestic companies. For example, Kodama et al. (2018) found that foreign companies vary in the extent to which they bring their home country practices to their Japanese operations. Older foreign companies and those holding greater control over their local operations were more likely to have corporate cultures that differed from the typical Japanese corporate culture. For example, these foreign companies had a higher representation of women and more flexible and family-friendly human resource practices. Therefore, foreign companies will not be the savior of the government's strategies. Domestic companies must be onboard, and it is likely through the use of a combination of well-chosen sticks (e.g., harsher penalties), carrots (e.g., attractive incentives), and role models (e.g., publicized success stories) that this will be achieved.

4.5.4 The Potential Role of Technology

While Japanese companies overall have not eagerly embraced the strategy initiatives discussed in this chapter, many have increasingly invested in robotics, artificial intelligence (AI), and automation. These investments have been spurred on by the

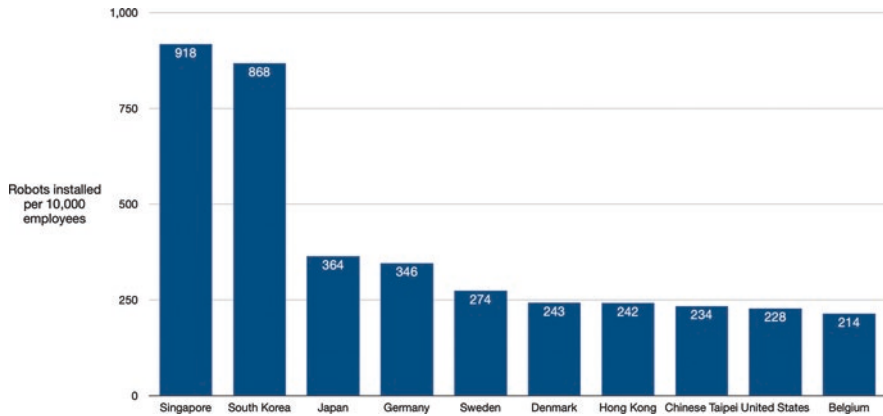


Fig. 4.17 Robot density in the manufacturing industry (top 10 countries, 2019). *Source:* International Federation of Robotics (2021)

government’s 2015 “New Robot Strategy” (METI, 2015) and 2017 “New Industrial Structure Vision” (METI, 2017). The former calls for the normalization of robotics in all aspects of daily life, while the latter maps out a vision that forecasts a dramatic change in the economy’s employment structure caused by technological advances. The goal is to have robots used both in a complementary (i.e., helping humans) and substitutive (i.e., replacing humans) manner. In 2019, Japan ranked as the third most automated country in the world having 364 robots per 10,000 employees (see Fig. 4.17) (International Federation of Robotics, 2021). Regarding average robot density in the manufacturing industry Japan has consistently been a global leader (International Federation of Robotics, 2021). Although the highest robot, AI, and automation intensities have been amongst larger companies within the manufacturing sector (e.g., automobiles, communications equipment, and plastics industries), robot implementation has been broadening to small- and medium-sized firms in other sectors (e.g., health care and hospitality). Examples include hotels adopting robot receptionists, restaurants installing robot chefs and touchscreen order terminals, and convenience stores implementing self-checkout registers.

Robotics, AI, and automation have been and continue to be an integral part of Japan’s economic success through elevating productivity (Dekle, 2020). However, the effectiveness of these technologies in helping resolve Japan’s labor shortage problem remains unclear. A growing body of research conducted in Japan has identified a variety of limitations that warrant consideration. Perhaps most importantly, studies have found that the adoption of these technologies can increase labor supply needs. While some firm-level studies (e.g., DeStefano, et al., 2019) of Japanese firms have shown that increased robot adoption results in a reduction of jobs, other studies have found the opposite. For example, Dekle (2020) using long-term (1979–2012) manufacturing industry-level panel data from Japan found that the introduction of robots increased aggregate demand for Japanese labor. Wright (2019) found that the increased use of elder care robots in Japan requires additional,

not fewer, migrant workers. This was due to these robots requiring an increased amount of (often less visible) work tasks for (human) caregivers, as well as a need for workers that would accept lower pay given the relatively high cost of purchasing or leasing care robots. Eggleston, Lee, and Iizuka (2021) in their study of Japanese nursing homes found that robot adoption increases, rather than decreases, the number of care workers and nurses by promoting more flexible work and increasing the tasks performed by non-regular employees. Increased labor supply needs are also evident across professions requiring higher level skills (Blanas, et al., 2019). The needs are particularly high for workers with technical expertise related to the development, implementation, management, and maintenance of these technologies.

A second important limitation is that these technologies can cause worker displacement, rather than replacement. Although Dekle (2020) found displacement effects to be insignificant, Hamaguchi and Kondo (2017) found quite significant displacement effects. In their study, which analyzed employment datasets based on Japan's population census surveys, the results indicated that the female labor force was particularly vulnerable to displacement due to the adoption of automation. They asserted that this is due to the heavy concentration of women in non-regular jobs whose tasks are more susceptible to automation. In DeStefano, Haneda, and Kwon's (2019) study it was also non-regular jobs that were predominantly cut due to robotics.

Beyond labor supply and worker displacement issues, there are a number of other potential limitations that should be considered. Robotics, AI, and automation are incapable of completing many required job tasks (Robertson, 2017). For example, social and care robots continue to have limited abilities to interact with customers. There is often resistance, especially amongst the elderly, to engage with technology (Pal, et al., 2019). These technologies tend to be costly, require long-term maintenance, as well as periodic repairs, replacement, and upgrading. Workplace layout changes and extensive worker training programs are typically required to accommodate the technologies. They can also present safety and security concerns (Kirschgens, et al., 2019). Employment relations changes, the suppression of wages for low-skilled workers (Borjas & Freeman, 2019), and the de-skilling of low-paid workers (Hirsch-Kreinsen, 2016) have also resulted from the adoption of robotics, AI, and automation.

Despite these potential limitations, robotics, AI, and automation have shown promise in being able to aid companies in managing labor shortages. Interestingly, they may enable companies to circumvent a number of the key challenges facing the three labor shortage management strategies examined in this chapter. For example, these technologies could improve the working environment in companies that require long working hours caused by labor shortages, thus reducing health and safety risks while elevating productivity and service levels (Kondo, 2018). They could reduce or eliminate language and cultural barriers, thus enabling a greater variety of workers (including foreign workers) to be employable (Shibata, 2019). It has even been asserted that these technologies could also mitigate the sociocultural anxieties provoked by foreigners, while avoiding cultural and language barriers (Robertson, 2017). Wagner (2013) quoted an official from Japan's Ministry of

Economy, Trade, and Industry who stated that robots are “a good solution for the dissent on the labor shortage and migration policy problem, because, thanks to their positive image, they would be ‘easier to accept for the Japanese society than invited foreign workers.’” Innovations, such as exoskeletons (i.e., body bots), could make many more jobs (e.g., physically demanding jobs) available to workers that would otherwise be unable to hold those positions (e.g., elderly workers) (Huysamena, et al., 2018)

Although in its infancy, the literature is making it increasingly apparent that employment systems and gender roles will determine the degree to which robotics, AI, and automation can aid in meeting labor supply needs. Their effectiveness will surely be limited if female, elderly, and foreign workers continue to be at higher risk than male, younger, and domestic workers of being replaced by these technologies. This also would undermine the many initiatives inherent in the three labor shortage management strategies examined in this chapter. Greater equality between men and women, between regular and non-regular employees, between elder and younger workers, and between domestic and foreign workers, would certainly be a step in the right direction. A step that should involve investing in programs that enable both current and future workers to acquire knowledge and skills that are complementary to these technologies.

4.5.5 Conclusion

The three key strategies, and the many initiatives (tools) embedded in those strategies, examined in this chapter do not represent a complete strategic approach for managing the demographically driven labor shortage problem. Nor do they represent a universally applicable or an ideal approach. While the benefits of learning from Japan’s experiences cannot be overstated, it is important to remember that each government will need to craft strategies and initiatives that best suit its culture(s), system(s), and people. However, every country will still need to, and should, consider the strategies examined in this chapter when determining how to best manage a pending or escalating labor shortage. Other governments should be cognizant of the missteps made in Japan, the reasons for the shortfalls, as well as the successes. Countries housing employment systems and/or a culture that is relatively close to that which exists in Japan should pay particularly close attention to Japan’s experiences. This is especially true for those countries, such as South Korea, that also have traditional gender roles well engrained into their social fabric. Companies should assess what the various strategies and initiatives would mean for their operations. It is vital that they identify ways to capitalize on the new and varied opportunities that will emerge as more countries adopt these strategies and initiatives. Those companies that are able to facilitate the efforts of governments in this pursuit will most certainly be in an advantageous position.

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Chapter 5

The Impact of Self-Construals and Thinking Styles on Business and Management Practices: A Comparison of East Asia and North America



Albert Lee, Li-Jun Ji, and Nailin Bu

5.1 Introduction

Case 1 Do It for Me or Do It Yourself?

In 2006, Home Depot—a nationwide retailer of home improvement products in the United States—expanded its reach to the booming Chinese market (NBC News, 2006). The retail empire, however, quickly discovered that it was less prepared for the new venture than it thought. Indeed, enthusiasm soon turned to unprecedented shock as the executives of Home Depot belatedly discovered that home improvement without the help of professional contractors—a common practice among American families—was viewed as a sign of poverty in many parts of China. In China, where migrant labor is inexpensive and customers are kings, home improvement is expected to play by the do-it-for-me ethos, not do-it-yourself. Having struggled with the cultural pitfall, Home Depot had no choice but to close its few remaining stores by 2012, abandoning the Chinese market with red ink still on the ledger.

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Case 2 Working Out at Work?

Japanese manufacturing plants throughout Asia are well known for their radio calisthenics (*rajio taisō*), a daily routine designed to build team cohesion and enhance corporate culture by having employees collectively perform coordinated exercises to music every morning (Japan Info, 2015). A casual search on Youtube.com easily returns plenty of entertaining videos of assembled employees in Japanese-invested manufacturing plants throughout Southeast Asia, wearing work uniform, bending, stretching, and jumping in unison to the recorded cue of “one, two, three, four ... five, six, seven, eight ...” (e.g., Lert, 2014; Nang, 2018; Setiono, 2016). When Japanese automobile firms first moved to the United States in the 1980s, however, this practice clashed with American culture. “*It’s not an American tradition to go to work and do exercise,*” acknowledged by an executive in charge of the American Nissan plant (Kraar & Berlin, 1989: 98). As a result, Nissan’s managers had to tone down the Japanese flavor of some of the imported practices for their American employees. There are other instances of this culture clash as well. For example, even though all employees of the US Nissan plant were issued a company uniform, wearing it eventually became optional. What about radio calisthenics? The practice, while remaining as a standard in most Nissan plants around the world, has slowly faded into history at their US factories (Kraar & Berlin, 1989). Fast forwarding to this century, a similar cultural dilemma is unfolding at a Chinese automobile glass factory in the United States, brought to the world’s attention by the award-winning Netflix documentary, “American Factory” (American Factory, 2019).

These cases illustrate the central role of culture in international business. The extent to which a firm can venture effectively in a foreign market often depends on the cultural awareness of the leaders behind the steering wheel, may they be the executives who make top-level decisions or the directors who convert these decisions into plans of action. A firm, when entering a foreign market without paying proper attention to cultural similarities and differences, may invite a commercial disaster. These speculations are consistent with perspectives in cultural psychology, which emphasize that people around the globe can think, feel, and act in different ways, despite certain commonalities across cultural borders (e.g., Fiske et al., 1998; Geertz, 1973; Hofstede, 1980, 1984; Markus & Kitayama, 1991; Shweder, 1991; Triandis, 1989).

Before our discussion, it will be constructive to highlight what this chapter is, and what it is not. First, this chapter does not attempt to provide a comprehensive look at everything we know about culture and business. Outstanding reviews to this effect already exist, each with unique goals and scopes (e.g., Gelfand et al., 2007; Hofstede & Bond, 1988; Leung et al., 2005). Rather, our goal is to focus on a set of essential dimensions of culture and examine how they may manifest in business-related settings, echoing classic (Hofstede, 1980) and recent (e.g., Trompenaars &

Woolliams, 2004) work on culture's impact on business and management. We elaborate on key culture-business connections that have clear and immediate practical implications for global firms. In so doing, we hope to strengthen the theoretical links between the cultural psychology literature and the vast body of work in international business.

Second, this chapter does not attempt to cover all cultural diversities across the globe. The world today is a mosaic of nearly 200 countries, each with its unique ecological, historical, social, political, and cultural roots. Packing every single one of them into any review chapter would be far too ambitious and, practically speaking, impossible. Rather, our main goal is to focus on the cultures of East Asia (including mainly China, Japan, and Korea) and North America (including the United States and Canada), as these regions have been the empirical foundation of cultural psychology. By comparing East Asians with North Americans, we hope to build a convincing case that culture deserves serious theoretical, empirical, and practical considerations in international business.

We begin the chapter by outlining the major theoretical frameworks and empirical findings of culture, focusing on ways of the self and thinking styles. We then discuss the cultural implications for various domains of international business, from workplace management to marketing strategy, information exchange, and investment decisions. We conclude by discussing how findings on the psychology of culture should be interpreted with some caveats.

5.2 What Is Culture?

The scientific exploration of culture typically emerges from two levels of considerations. At its broadest level, culture can be conceptualized as a set of assumptions, values, beliefs, traditions, norms, and practices shared by a group of people for the purpose of survival and goal pursuits (Chiu et al., 2011; Fiske et al., 1998; Markus & Kitayama, 1991). These elements of culture provide a set of coherent benchmarks for people to perceive, evaluate, remember, predict, communicate, and behave in a particular geographical location (e.g., country). The patterns of thoughts, feelings, and behaviors in a particular region, in turn, reinforce the cultural landscape of that region, from economic and political structures, education and legal systems, customs, social practices, communication styles, family structures, all the way down to the daily routines of individuals. In short, culture and the human mind do not exist and operate independently; they are deeply intertwined (Markus & Kitayama, 1991; Nisbett, 2003; Shweder, 1991; Triandis, 1989).

Two areas of the mind have been well studied by cultural psychologists: ways of the self and thinking styles. Both are mental pillars of numerous basic and higher-order processes. The ways of self can influence people's emotion, motivation, and cognition, all of which contribute to social judgments (Markus & Kitayama, 1991). Thinking styles can shape people's attention, memory, information processing, and, ultimately, their choices and decisions (Nisbett, 2003). We focus on these two areas in this chapter.

5.3 Independent Vs. Interdependent Self

Many human phenomena can be traced back to the way people experience the self. As a psychological construct, the self can be broadly defined as the mental representations of one's identity (James, 1890). Aside from imbuing the physical existence of the human body with social meaning, the self is also vital for its diverse impacts on a host of psychological processes, some of which are inseparable from the business world.

For decades, psychological research has been motivated by the assumption that thoughts and behaviors are guided, in one way or another, by the extent to which the social world is included in the experience of the self. How do people see themselves in relation to those around them? For people who are oceans apart, what are the similarities or differences in their sense of self? When asked to describe themselves, some people highlight their traits, preferences, abilities, or other individuating information that sets them apart. This pattern, focusing more sharply on the individual and less on one's relationships with others, is prevalent among North Americans. Meanwhile, other people are inclined to describe themselves in terms of their roles, obligations, and memberships in social groups. This pattern, focusing more sharply on groups and contexts and less on the individual, is prevalent among East Asians. Such cultural differences in self-descriptions appear to follow a developmental trajectory, emerging in early childhood (Wang, 2004) and becoming more stable and apparent in adulthood (e.g., Bochner, 1994; Bond & Cheung, 1983; Kanagawa et al., 2001; Ma & Schoeneman, 1997; Triandis et al., 1990; Watkins et al., 1998). These results suggest that the way people describe themselves can vary considerably across cultures.

Distinct patterns in self-descriptions reflect different ways in which the self is experienced and construed. Research has shown that the self can be experienced in at least two ways. One model of the self, known as the independent self (e.g., Markus & Kitayama, 1991), arises when people derive a sense of self from internal attributes such as traits, attitudes, preferences, abilities, or other qualities that separate themselves from others (Geertz, 1975; Markus & Kitayama, 1991). Such an independent way of construing the self has implications for motivations, emotions, and cognitions. In particular, people with an independent construction of self are motivated to be unique (Kim & Markus, 1999). They tend to enhance the self with positive information (e.g., Heine et al., 1999; Heine, 2003; Kitayama et al., 1997), focus on promotional outcomes such as successes or rewards (Elliot et al., 2001; Lee et al., 2000), feel autonomous in decision-making (Morling et al., 2002), and align their behaviors with personal attitudes and goals as a way to promote consistency in the self (Heine & Lehman, 1997; Kashima et al., 1992; Triandis, 1988, 1990; Suh, 2002). Uniqueness, self-enhancement, autonomy, promotion focus, and consistency are all deep psychological processes operating in the service of an independent self, compatible with the core values of individualism (Hofstede, 1980; Triandis, 1989). This approach to identity construction may explain why an

independent self is prevalent in many Western countries (Fiske et al., 1998), especially in Canada and the United States where individualism is strongly embraced.

The other model of the self, known as the interdependent self (e.g., Markus & Kitayama, 1991), arises when people derive a sense of self from relational attributes such as roles, obligations, memberships, or other qualities that bind them with people who matter to them. People with an interdependent self tend to define the self by the relational attributes that acknowledge their bonds with the group to which they belong, instead of the attributes that distinguish them from everyone else. Such individuals tend to prioritize the group and are motivated to keep interpersonal harmony by blending in (Bond & Smith, 1996). They also tend to efface the self with negative information (Heine et al., 1999; Heine, 2003; Kitayama et al., 1997), focus on preventing undesirable outcomes such as failures or punishment, avoid public embarrassment (Elliot et al., 2001; Kim & Nam, 1998; Lee et al., 2000), sacrifice personal interest for in group benefits (Triandis, 1988, 1990), and behave flexibly in response to situational demands (Heine & Lehman, 1997; Kashima et al., 1992; Suh, 2002), even when doing so goes against one's own attitudes or beliefs. Harmony, self-effacement, heightened concern for in groups, prevention focus, and flexibility are all key processes underlying an interdependent self, compatible with the core values of collectivism (Hofstede, 1980; Triandis, 1989). This approach to identity construction may explain why an interdependent self is widespread in many Asian countries (Fiske et al., 1998)—including China, Japan, Korea, and India—where collectivism is valued.

Cultural differences in the perception of self may have implications for the preference to keep traditions as they are. Such preference may manifest as support for an existing system, respect for authority in this system and, more generally, the recognition of seniority based on socio-demographic attributes such as age and social power. Viewing an existing system, authority figures, and senior members with reverence is regarded as the way to fortify the overall structure of a society and prevent things from falling apart, according to many East Asian cultures. The respect for traditions tends to co-exist with the spirit of interdependence and collectivism, in that all three are anchored in the concerns for the harmony and stability of a community. Indeed, past work has shown that compared to North Americans, East Asians have a heightened respect for existing systems (Hofstede, 1980; House et al., 2002), authority (Fiske, 1992; Murray et al., 2011), and seniority (e.g., Lincoln, 1989), all of which are attributable to the pervasive and enduring influence of Confucian teachings in East Asian societies (Fuller & Peterson, 1992). In countries such as China, Korea, and Japan, people are deeply concerned about the verticality embedded in the authority-subordinate relationships and the social power associated with age and organizational positions, to the point that these cultures are known as prime examples of vertical collectivism (Singelis et al., 1995; Triandis & Gelfand, 1998) and high power distance (Hofstede, 1980).

The respect for verticality and power distance, when combined with other motives such as the need to preserve interpersonal harmony, may encourage people

in East Asian communities to act in one way on the outside despite feeling another way on the inside. For example, people in Japanese culture are known for keeping a sharp distinction between *honne* (i.e., true personal feelings) and *tatemae* (i.e., public presentation), with the former kept close to the self and the latter presented to the world (e.g., greeting the boss with a big smile even though one is in distress). Likewise, people in Chinese cultures may sometimes respond to a request with a “yes” when it actually means a “no” (Ma, 1996). These observations, far more common in East Asia than North America, reflect the cultural grammar of representing the self with two distinct layers of information, one for the inside and one for the outside (Lee et al., 2019).

In sum, psychological research in the past few decades has shed light not only on the properties of the self but also on the fluid nature of the human mind, manifested in cultural similarities and differences. People around the world are similar to the extent that their thoughts and behaviors rarely take place in a social vacuum. At the same time, people across the globe are strikingly different in whether, or how much, they consider others as a part of who they are. Empirically, there are distinct differences in the construction of the self between North Americans and East Asians, with an independent self being more common among the former and an interdependent self being more common among the latter (e.g., Bond & Cheung, 1983; Heine et al., 1999; Markus & Kitayama, 1991; Triandis, 1989). These cross-cultural differences certainly have significant implications for business, both in terms of workplace management and marketing strategies, the topics to which we turn next.

5.3.1 Self-Construal and Workplace Management

Given the distinct differences in self-construal between the West and East Asia, in this section we explore some of the effective approaches for managing and motivating employees in East Asia, and how these approaches might be quite different from those adopted in typical Western firms. We begin by examining managers’ ability to elicit employees’ work effort. Clear cross-regional differences have emerged from empirical studies, many of which examined the extent to which employees accept undesirable directions by their supervisors. In one study, Chinese employees—both in mainland China and Taiwan—exhibited a stronger inclination to accept supervisory directions that went against their personal interest, compared to their American counterparts (Bu et al., 2001a). The finding is consistent with the interdependent nature of the self among East Asians, reflecting their reverence for people who rank high in the organizational hierarchy. Digging deeper, Bu and colleagues (2001a, 2001b) found that mainland Chinese supervisors were able to influence their subordinates’ behaviors even when the supervisors’ directions were not widely supported by other employees, or were perceived as unmeritorious by them, as long as the directions were not in violation of the existing system (e.g., the company’s formal policies).

In certain environments, this relatively unconstrained managerial power can contribute positively to the success of firms. For instance, when a firm is faced with an extremely volatile or ambiguous environment, the course of action urgently needed may not yet be understood by most employees as being necessary or may even be very unpopular. In such instances, managerial discretion can enhance a firm's flexibility and, hence, its chances of success. The COVID-19 outbreak might just be one of those instances where the need to flatten the curve without delay is essential for saving lives. It has been argued that the success in controlling the spread of infection in mainland China, Taiwan, and South Korea has much to do with the public's acceptance of the governments' authority to implement strict social distancing and contact tracing measures with the help of digital technology (Candelon et al., 2020; Gelfand et al., 2021). These observations are in sharp contrast with some reports in North America, where the recommendation of wearing of facial masks by public health authority has been met with hesitation, suspicion, or resistance in defense of personal freedom (Rojas, 2020).

In modern organizations, many work tasks must be accomplished collaboratively. However, when the line between "my tasks" and "our tasks" gets blurry, a serious managerial challenge known as "social loafing" may emerge. Social loafing takes place when an individual exerts less effort working in a group than working alone, intentionally or not (Latané et al., 1979). Given the distinctions in the self across cultures, one may predict that social loafing is more common among individualists who are conditioned to focus on their own needs and interests above others, compared to collectivists who are conditioned to place group expectations and needs above their own. The findings of a study (Earley, 1993) with participants from China, the United States, and Israel, largely confirmed this prediction—but with a twist. Individualists, not surprisingly, performed a task with greater accuracy when they worked alone than when they worked in a group. Collectivists, on the other hand, were more accurate when working with in group members. When out group members were part of the team, performance of collectivists dropped, to the level as if they were working alone. Among the individualists, however, performance declined when working in a group, regardless of whether it was an in group or out group, compared to working on their own. These findings reflect a higher level of differentiation assigned to in group vs. out group by collectivists than by individualists (Triandis, 1995).

These findings are also reminders of past work on culture and reward allocation norms in the workplace. Earlier Western theories (e.g., Adams, 1965) generally support the rule of equity that the rewards received by a group of people should be allocated in proportion to individual contribution. Beyond the equity rule, research on distributive justice (e.g., Deutsch, 1975) has also examined the equality rule of reward distribution among ingroup members, where rewards are allocated to everyone in the group equally. A study comparing how American and Hong Kong Chinese participants allocated rewards between themselves and a partner after completing a task together yielded interesting findings (Leung & Bond, 1984). In scenarios where they were the better performer of the pair, Chinese participants allocated rewards more equally (i.e., applying the equality rule) if their partner was an in group

member, but more equitably (i.e., applying the equity rule) if their partner was an out group member, compared to American participants. This showed that, relative to their American counterparts, high-performance Chinese were more generous to their in group peers than out group peers. In scenarios where they were the lower performer of the pair, the Chinese participants allocated rewards more equitably than the American participants, regardless of whether their partner was part of an in group or out group. In other words, the low-performance Chinese were less inclined to take advantage of their partners, be they friends or strangers, than their American counterparts. These results were generally replicated in another comparative study conducted in the United States and Hong Kong (Hui et al., 1991).

It is puzzling to some as to why East Asians, when teamed with in group members, would work harder without insisting on proportional reward. What motivates this kind of work ethic? One explanation has emerged from an in-depth study carried out in a major Korean company, which concluded that the Korean employees attributed their hard work to the social pressures they felt from their in group members: they worked hard to avoid disappointing their bosses and peers (Janelli, 1993). In other words, what pushed the Korean employees forward at work was the fear of losing status within their in group, and not so much the concern of losing material rewards (Kim & Nam, 1998). These observations are in line with the strong prevention focus, heightened concerns for face, and pursuit of interpersonal harmony, all of which are key themes of East Asian cultures (Elliot et al., 2001; Lee et al., 2000). More broadly, dedication in service of the group is also compatible with the virtues of benevolence (仁) and righteousness (义), both central to the teachings of Confucianism prevalent in East Asia (Hwang, 2001; Little, 1989).

One study, however, revealed interesting findings when company employees in the United States and China were asked to assume the role of a company executive. Somewhat unexpectedly, Chinese participants were more inclined to allocate rewards among employees with the equity rule than American participants (Chen, 1995). One explanation for this seemingly surprising result has to do with the role of the reward allocator. In this study, the allocator was an authority figure higher up in the organizational hierarchy whereas in the studies (Leung & Bond, 1984; Hui et al., 1991) discussed in the previous section, the allocator was one of the recipients. When the allocator is also a recipient of rewards, collectivist values dictate the prevalence of equality and generosity in the in group (Leung, 1997). If the allocator is an authority figure, they may allocate rewards unequally, which can still be well accepted by subordinates in interdependent cultures such as China (Chen et al., 1998; Leung, 1997).

These findings have important managerial implications for Western multinationals with business operations in East Asia, where the cultivation of in group sentiment through team building is an effective tool to enhance team performance. In fact, according to a book by a Western executive employed by a Chinese firm in Shanghai, Chinese local firms are known for investing substantial resources in after-work activities as a way to nurture team spirit among employees (Ross, 2020). In East Asia where teams can be highly cohesive, a more egalitarian distribution of bonuses may not hurt team performance as individuals in these types of teams are

motivated to enhance their status among others whom they care about through diligence. In contrast, human resource practices that encourage in group members to compete for a fixed sum reward will likely lead to anxiety among employees and are, therefore, counterproductive. On the other hand, the pay-for-performance approach, which stands as the mantra of human resource management in Western firms, may also be accepted among East Asian employees provided that such allocation decisions are made by a supervisor.

Another manifestation of cultural differences is the extent to which employees would inflate their own ability and accomplishments in their self-representation at work. This tendency, commonly known as a form of self-enhancement bias, had been widely accepted as a natural human tendency to maintain a positive self-regard, until evidence from East Asia suggested otherwise (e.g., Heine et al., 1999; Heine, 2003; Kitayama et al., 1997). For example, data collected from a sizable sample of supervisor-subordinate dyads in Taiwanese firms indicated that employees' self-rating of their performance was less favorable than the rating they received from their supervisors (Farh et al., 1991). Further analysis ruled out the possibility that the gap between the supervisor-subordinate ratings was because these Taiwanese supervisors were particularly lenient in assessing their subordinates. Instead, the researchers established that the Taiwanese subordinates' modesty bias was the cause of the rating gap. Similarly, Japanese participants also demonstrated a significantly weaker tendency to engage in self-enhancing behaviors than did their American counterparts (Heine & Renshaw, 2002). The lack of self-enhancement is pervasive throughout various geographical communities in East Asia and is found even among Asians who live outside of Asia, according to meta-analytic evidence (Heine & Hamamura, 2007). This area of research has important implications for managers who oversee subordinates from diverse cultural backgrounds. Making human resource decisions, including performance evaluation and promotion, without being cognizant of such potential cultural difference may expose international firms to the risks of distributive injustice, as well as ineffective recruitment and retention of talents.

5.3.2 Self-Construal and Marketing Strategies

For global firms, serious considerations must be given to how their products or services should be marketed in various regions around the world. These considerations, if taken lightly, may have serious financial and strategic ramifications. As a result, the topic of how culture might affect consumer behavior and marketing strategy has received growing attention (e.g., Keegan, 1989; de Mooij & Hofstede, 2002).

Culture affects consumer behavior in multiple ways, including the motivations behind purchase decisions (Yang et al., 2015) and responses to brand images and advertisements (Kwon et al., 2015; Torelli et al., 2012). With respect to motivation, the consumption of products can be both personal (to fulfill a particular need) and social (to project a particular type of image to others). Given the difference in

emphasis on interpersonal relations across cultures, one may expect social motivations to play stronger roles in the purchasing decisions of East Asians than those of North Americans (de Mooij & Hofstede, 2002). Take luxury products as an example. Up until a decade ago or so, the Japanese were one of the most faithful consumers of luxury brands, from Chanel and Louis Vuitton all the way to Gucci, Prada, and Burberry. According to one estimate, Japanese consumers purchased as much as 45% of all the luxury goods sold worldwide in 2005, including the purchases made on trips abroad. Interestingly, in Japan, the possession of luxury-branded products is not restricted to those who are rich and famous, as what one may observe in many Western countries. Instead, a survey conducted in Tokyo around the beginning of this century showed that among young women in their 20s, over 94% owned something from Louis Vuitton brand; at least 92% had Gucci products; nearly 58% owned a Prada item; and more than 51% had something with a Chanel label on it (Webb, 2006). As it turns out, the possession of luxury brands has become such a salient societal expectation that Japanese young women have to scrimp and save on everyday expenses or, in some cases, embrace the “parasite singles” lifestyle by living with their parents, in order to be able to afford these luxuries (Marx, 2009). In fact, the weak yen and stagnant wages of Japan in recent years have pushed many luxury brand buyers into the so-called recycle shops which sell second-hand branded products, or the “grey market” where luxury goods are procured from lower-cost countries and sold at lower prices than the ones in official stores (Webb, 2006).

The prolonged economic recession of Japan eventually put a severe dent in luxury spending (Alderman, 2011), and China was quick to take the crown. In 2019, Chinese consumers generated approximately 35% of global luxury spending (Danziger, 2020). Interestingly, Chinese luxury consumers share some subtle yet intriguing similarity in the motivation to meet social expectations as their Japanese counterparts. According to one McKinsey report, for more than three-quarters of the luxury goods sold in China, consumers are enticed more by these products’ easily recognizable iconic brands than by their superior design, style, material, or production process (Luan et al., 2019). It was also found that niche or boutique brands that are not widely known do not generate sustained demand in China (Luan et al., 2019). Furthermore, products consumed in public command greater price premiums in China than products used in private (Doctoroff, 2012). Chinese consumers also purchase more expensive wine when it is for entertainment or gifting than for personal enjoyment (Somogyi et al., 2011; Yu et al., 2009). Tom Doctoroff at Prophet, a global brand and marketing consultancy, summarizes the phenomenon well: “[l]uxury items are desired [in China] more as status investments than for their inherent beauty or craftsmanship” (Doctoroff, 2012).

Starbucks, the popular American coffeehouse chain, appears to have capitalized on the power of social motives on well-heeled consumers in urban China. In a nation of tea-drinkers, Starbucks now has nearly 4000 outlets, more than in any other country outside the United States (The Economist, 2018). In its chic cafes in Shanghai, a tall black Americano—costing just \$2.15 in Los Angeles—sells for \$3 (Harbeck, 2019). Chinese consumers willingly pay high price in a trendy spot for a chance to socialize and, more importantly, to showcase their affluence and sense of styles by

sharing photos of themselves with their drinks on social media. In 2017, Starbucks doubled down on the Chinese market and opened a Reserve Roastery in Shanghai, the second worldwide after the concept's inaugural launch in Seattle. It is not hard to imagine that this high-end coffee palace has become one of the hottest spots for stylish Shanghainese and "[i]t's not uncommon for a line to form outside the Starbucks Reserve Roastery in Shanghai on weekends, and even on weekday nights," according to a CNBC report (Saiidi, 2018).

Projecting success and sophistication is not the only type of social motivation among East Asian consumers. Beyond the desire to appear classy also lies the motivation to fulfill social expectations and obligations. Both Japan and China, for example, have refined and perhaps overly onerous rituals of gift-exchange (Bu & Roy, 2008; Shoji, 2018). While gift-exchanges exist in numerous cultures, such rituals are observed in a much more deliberate manner among East Asians thanks to their heightened concerns for public image of the self in a highly interdependent world. "Face" (e.g., Leung & Cohen, 2011)—the cultural understanding of respect, honor, and social standing—can be enhanced with a nice gift but can easily vanish if the gift is poorly prepared. Naturally, many firms in East Asia strive to position their products as suitable gifts.

In this regard, Nestlé Japan has succeeded in abundance with its KitKat chocolate bars. In Japan, KitKats come in nearly 400 flavors, including the flavors of sweet potato, green beans, plum wine, wasabi, rum raisin, sake, matcha, and many more. Some of the flavors are available only in a particular region of the country (Joy, 2016; Madden & Madden, 2010; Rao, 2018). While regional exclusivity tends to encourage a sense of scarcity and collectability, it also acts as an interpersonal lubricant when products of limited editions are purchased as *omiyage*, meaning souvenirs brought home from a trip (Japan-guide.com, n.d.). In airports and train stations, KitKats would come in a large case containing multiple gift-packaged boxes, perfect for sharing with family, friends, and co-workers back home (Joy, 2016). Coincidentally, KitKat, pronounced "*Kitto Katto*" in Japanese, sounds like "*kitto katsu*" which means "you'll surely win"—a blessing of luck. To leverage this play of words, Nestlé created "KitKat Mail" through a partnership with Japan Post, where a special KitKat package is available at all post offices nationwide, to be mailed with the special message of "you'll surely win" to high school students who are preparing for the nation's high-pressure university entrance examination (Madden & Madden, 2010). This gift is irresistibly enticing to anyone who knows such a young student. In fact, it would be socially unacceptable not to send such good wishes! Furthermore, because reciprocity is an essential element of the gift-exchange ritual in Japan (Shoji, 2018), such gesture of well-wishes, to Nestlé Japan's delight, multiplies and amplifies over time. As a result, KitKats are as popular as ever in Japan (Joy, 2016). Riding on its success, KitKat Mail is becoming ever more elaborate in format, as reflected in a video example showing a Japanese student savoring a KitKat bar while watching a well-wishing song and dance in a hologram that she has received in the mail (Errens, 2016).

Responses to brand images and advertisements are also shaped by culture. From the literature, we learn that North Americans, inclined to assume an independent

self, are drawn to information that reinforces a sense of individuality, whereas East Asians, inclined to assume an interdependent self, are drawn to information that reinforce relational bonds (Bochner, 1994; Bond & Cheung, 1983; Kanagawa et al., 2001; Ma & Schoeneman, 1997; Triandis et al., 1990; Watkins et al., 1998). Distinct ways of cultural self are manifested in marketing. For example, in a study (Zhang & Gelb, 1996) on advertising appeals, American and Chinese participants were shown a series of advertisements and asked to rate how much they liked the ads and the brands that designed them. Advertisement content was manipulated such that the message would appeal to the themes of either an independent self (e.g., “*Come and indulge in the joy of self-expression!*”) or an interdependent self (e.g., “*Share the moments of joy and happiness with your friends and family!*”), depending on conditions. Results showed that the advertisements, as well as the brands behind them, were rated as more appealing by American participants when the message was congruent with an independent self, whereas the advertisements and brands were more appealing to Chinese participants when the message was congruent with an interdependent self.

These cultural patterns suggest that marketing managers in global firms can benefit from understanding important cultural elements and tailoring their marketing messages accordingly. Research has demonstrated that such cultural tailoring is evident in many cases. For example, magazine advertisements in the United States tend to be driven by appeals to individualistic values such as uniqueness and personal success, whereas magazine advertisements in Korea tend to be driven by collectivistic values such as harmony and family integrity (Han & Shavitt, 1994). Similar examples of cultural adaptation have also been identified in television commercials, with individualistic themes such as personal enjoyment and autonomy being more pervasive in the United States, and collectivistic themes such as family and traditions being more pervasive in China (Cheng & Schweitzer, 1996; see also Frith & Sengupta, 1991; Pasadeos & Chi, 1992; Shao, Raymond, & Taylor, 1999).

Message designs with a cultural spin are evident among the world’s most successful firms. Indeed, content analysis of American and Japanese websites of all automobile, electronics, and retail firms included in the Forbes list of Top 500 global companies reveals something interesting: Compared to their American counterparts, the Japanese versions of the firms’ websites contained significantly more content reflective of collectivist values, including family, online clubs, and links to local firms (Singh & Matsuo, 2004).

A particularly vivid illustration of this type of cultural adaptation comes from the tale of a duck—the Aflac duck. Love it or hate it, every American knows about the Aflac duck and the company whose name the duck has been loudly “quacking” on numerous TV commercials—the American Family Life Assurance Company (Aflac). According to Aflac CEO Dan Amos, within 3 years of the first Aflac duck commercial—which aired on January 01, 2000—the company’s name recognition went from under 10% to around 90% and sales doubled in the US market (Amos, 2010). Given the resounding success, it must have been very tempting to simply dub the same commercials and air them in Japan—Aflac’s major market. But thanks to their cultural insight, Aflac’s executives recognized that the American commercials,

which invariably feature the Aflac Duck “quacking” boisterously so as to be heard by people who seem determined to ignore it, would not be well received by the Japanese. It was believed that the Japanese, who have a strong interdependent self-construal and pride themselves for being exceptionally congenial to one another, would find the American Aflac commercials offensive. Consequently, the commercials were remade for the Japanese market. They showed the Japanese duck interacting with people pleasantly and singing a cheerful jingle in a soft, sweet voice (see an example of these commercials found on YouTube (PublicidadJapon, n.d.). The new Aflac duck was a hit in Japan and by 2009, 200,000 Japanese had posted spoofs of the Aflac jingle on a dedicated company website (Amos, 2010).

The models of independent vs. interdependent self can offer parsimonious explanations for a host of differences between Westerners and East Asians in their behavioral patterns as employees and consumers. Self-related processes, however, are by no means the only aspects of cultural diversity. For example, a vast body of literature has been built upon the cognitive processes that people use to transform sensory information into knowledge. Such cognitive and perceptual processes are deep-seated in operation, far-reaching in implication, and highly sensitive to the influence of culture. In the next section, we review representative findings showing some of the most compelling evidence for cultural variations between North Americans and East Asians in cognition. By viewing culture in terms of cognition, we extend the discussion to the variety of judgments and decisions people make in the domains of business.

5.4 Analytic Vs. Holistic Thinking

Culture shapes people’s cognitive styles, ranging from attention, perception, and attribution, to prediction and decision-making. What and where do people focus on when they perceive a scene? Is everything in this universe assumed to be discrete or fluid in nature? Does context matter when it comes to understand the basis of life? How may the future unfold given the patterns of the past? All these aspects of cognition and perception vary across cultures.

Attention, as a basic cognitive process, refers to the process by which people direct their focus to a specific piece of information. The way people think or feel about an issue, all the way to the judgments and decisions they make, are often based on the information captured by their attention. Over the years, psychologists have found considerable cultural differences in the extent to which people attend to the various elements in their visual fields, namely the focal objects in the foreground or the surrounding elements embedded in the background. Early studies on attention and culture typically involved participants viewing a scene, such as an animated fish tank, and then performing various tasks related to the scene, such as a memory test on the things in the fish tank.

Consider, for instance, an animated fish tank characterized by the presence of focal fish that are much larger, brighter, and quicker than anything else in the tank.

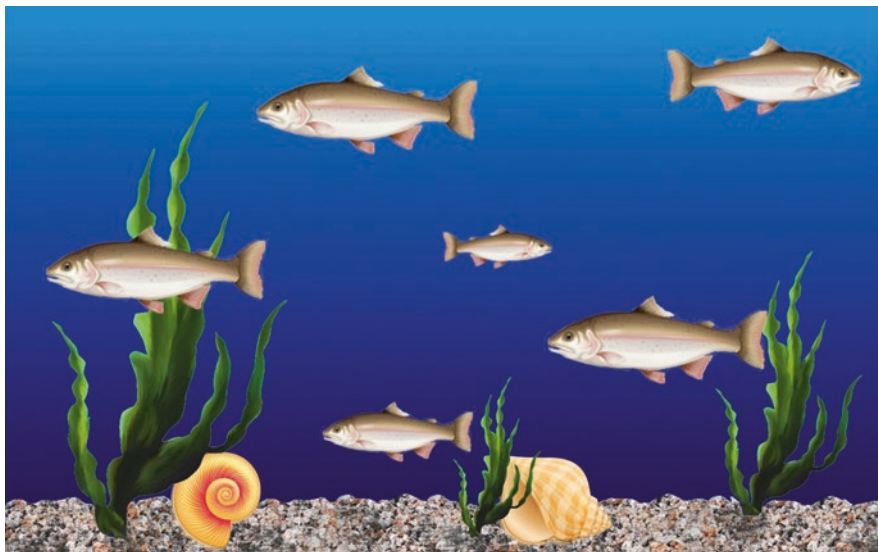


Fig. 5.1 The fish tank experiment. *Note:* This is an illustration created based on the fish tank experiment described in Masuda and Nisbett (2001), with focal fish in the foreground and various marine creatures as contextual information in the background

The focal fish—the focal objects in the foreground of this underwater scene—are accompanied by various marine creatures in the background, such as frogs and plants, which are smaller, dimmer, and slower than the focal fish at the front (see an example illustrated in Fig. 5.1). Upon viewing this fish tank, would people from different cultures show similar or different patterns in their attention to the focal and background objects? If different, how do they differ? To find out, researchers presented American and Japanese participants with the scene described above and then asked them to provide narratives about what they saw (Masuda & Nisbett, 2001). The results revealed that the American participants tended to focus predominantly on the focal fish, whereas the Japanese participants tended to have a more balanced focus, describing both the focal fish and the creatures in the background.

Cultural differences in attention to contextual information influence basic visual perception, such as how accurate people are in telling whether a line is vertical. Research has shown that when judging the position or size of a single line, Americans are more likely than East Asians to disregard contextual information, whereas East Asians are more likely to be influenced by the context surrounding the line (Ji, Peng, & Nisbett, 2000; Kitayama, Duffy, Kawamura, & Larsen, 2003). In line with the findings by Masuda and Nisbett (2001), these results indicate systematic cultural differences in attention, with American participants being more inclined to focus on focal objects than the background, and East Asian participants more inclined to spread their focus across both focal objects and the background contextual information.

Thus, East Asians tend to bundle up the target object with the contextual background in which it appears. This tendency is known as field dependence (Witkin,

1969), which is relatively weaker among North Americans than among East Asians. This impact of culture on the awareness of context seems to be domain-general, observable in various domains ranging from the recognition of emotional expressions (Masuda et al., 2008a), appreciation of art and photography (Masuda et al. 2008b), preference for social media profiles (Huang & Park, 2013), all the way to the detection of changes in the environment (Ji et al., 2000), attitude attributions (Miyamoto & Kitayama, 2002), and complexity of the ecological environment (Miyamoto, Nisbett, & Masuda, 2006).

More generally, the above studies suggest a broader conclusion regarding the way information is processed across cultural groups. North Americans' tendency to assign importance to focal information reflects a basic principle that guides the thinking style in many Western cultures, known as analytic thinking. *This thinking style* assumes that everything in the universe—be it an object, person, event, or abstract idea—is discrete in nature and can be understood in terms of its underlying internal attributes independent of its context. To analytic thinkers, reasoning about the world is based on the attributes of the object, not the contextual factors surrounding it.

The emphasis on dispositional attributes has far-reaching implications for social judgments and decisions. For example, when asked to classify objects (e.g., monkey, panda, banana) into groups, North Americans tend to do so on the basis of taxonomic features that exist within the objects (e.g., pairing monkey with panda), not the thematic relationships (e.g., pairing monkey with banana) they share (Ji, Zhang, & Nisbett, 2004). The use of the taxonomic rule in categorization tasks is observed not only in North American adults but also in American children (Chiu, 1972). Through the lens of dispositional attributes, social behaviors, such as a man volunteering in charity homes or losing his job, are believed to have something to do with the person's internal attributes instead of external circumstances. Accordingly, North Americans tend to assign causal responsibilities of behaviors to the internal attributes of the actors, taking situational factors into little consideration (e.g., Choi & Nisbett, 1998; Cousins, 1989; Hamilton & Sanders, 1992; Jones & Harris, 1967; Lee, Hallahan, & Herzog, 1996; Morris & Peng, 1994). Together, this body of empirical findings underscores the pervasiveness of analytic thinking in the West, particularly in Canada and the United States. Findings on the thinking style of Westerners also forge theoretical links with their inclination towards an independent self, which focuses on their traits, attitudes, abilities, or other internal attributes that make them a unique individual, and not on the relational contexts in which they are embedded.

In contrast, the perception of people from East Asia is guided by the relationship between the object and the background context. Judgments are rarely a pure result of focal information, and meanings are derived from the integration between the focal and contextual information with which it is associated. The tendency to associate focal elements with their surrounding contexts into an integrated whole reflects a basic principle underlying the thinking style of many East Asians. This thinking style, known as holistic thinking, assumes that everything in the universe is fluid, complex, and interconnected in nature, and that things do not make much sense

unless they are considered relative to their contexts: The fish are inseparable from other marine creatures in the fish tank (Masuda & Nisbett, 2001); the orientation of the rod is bound to the frame around it (Ji et al., 2000); people may help or harm for reasons outside of themselves (Morris & Peng, 1994). To holistic thinkers, reasoning about the world is incomplete if the focal information is considered in isolation of contextual forces.

Like analytic thinking, holistic thinking manifests itself in a variety of social judgments and decisions. For example, when asked to categorize objects into groups, East Asians tend to consider the thematic relations among the objects as the basis of their judgments, not their internal attributes (Ji et al., 2004). The use of the thematic rule in categorization tasks, such as matching a monkey with a banana and not a panda, reflects the recognition that everything in the world can be related through function, purpose, and role. Such awareness matters a great deal in causal attributions. When explaining behaviors, holistic thinkers tend to assign responsibility to external factors that speak little about the nature of the actor. For example, a person might have committed murder due to toxic social values instead of his own personality (Morris & Peng, 1994). This attribution pattern, focusing on the surrounding context and not the actor, has been widely documented. Indeed, compared to participants from the West, participants from East Asia are more inclined to form judgments based on situational causes as opposed to internal causes (e.g., Choi & Nisbett, 1998; Cousins, 1989; Hamilton & Sanders, 1992; Lee et al., 1996; Morris & Peng, 1994). Empirically, these results highlight the pervasiveness of holistic thinking in East Asia, particularly in Chinese, Japanese, and Korean cultures. Theoretically, these findings on holistic thinking are compatible with their interdependent way of self, which focuses heavily on the web of social relationships, roles, obligations, and memberships that defines their existence in the world.

People across cultures differ not only in their sensitivity to the context, but also in their assumptions about how the world develops over time. East Asians are inclined to view the universe as a flux of interconnected elements, with everything constantly shifting from one state to another (Peng & Nisbett, 1999). From daily events to the grand scheme of the universe, they perceive the basis of life as being fundamentally fluid, full of contradictions, and changing all the time. In this view, impermanence and uncertainty are part of life. When the moon is new, it starts to wax; when it is full, it starts to wane. Many events in life are perceived to follow similar cycles (e.g., Ji, Nisbett, & Su, 2001; Ji, Lee, & Guo, 2010). Such holistic, cyclic view of life stands in stark contrast to the analytic view held by people in Western cultures. To many North Americans, for instance, the universe is assumed to be fundamentally discrete, static, and linear, and can be unpacked one step at a time through the rules of logic (Gurevich, 1969; Peng & Nisbett, 1999). From this perspective, the deeper one explores the world, the more one should come to understand it, not less.

The above observations suggest something systematically different about how North Americans and East Asians understand change and make predictions. In the

minds of East Asians, everything follows a cyclic or nonlinear pattern. “*What goes up must come down*,” as the saying goes. If this is indeed true, East Asians should be inclined to predict an event in a way that deviates from its original propensity, more so than North Americans who assume linearity. Framing these beliefs in terms of lay theories of change (i.e., people’s intuitive beliefs about how events develop over time; Ji, 2005), one may expect a nonlinear theory of change to be common among East Asians, whereas a linear theory of change to be common among North Americans.

Empirical evidence supports this prediction. After viewing a past trend, Chinese are more likely to generate predictions that deviate from the original propensity of the trend (e.g., predicting a decline for an increasing trend), compared to Americans who tend to generate predictions consistent with the trend’s original propensity (e.g., predicting an increasing trend to continue to increase; Ji et al., 2001). These differences in predictions have been observed in various domains of life, from romance and wealth to friendship and the global economy. For example, Chinese participants are more likely than North Americans to expect two kids who fight in kindergarten to 1 day become lovers, to expect their personal happiness to go up and down, and to predict an increasing trend to eventually decrease. Subsequent research shows that cultural differences in the use of linear vs. nonlinear theories of change do not appear until 9–11 years of age (Ji, 2008).

Alongside the perception of change, North Americans and East Asians also differ in their levels of attention to the past, present, and future. Research reveals that East Asians take a broader range of temporal information into consideration, compared to North Americans (Guo, Ji, Spina, & Zhang, 2012; Ji, Guo, Zhang, Messervey, 2009; Ji et al. 2019). That is, when making judgment or decisions, East Asians tend to recruit relevant information from a wider frame of time, extending from the present further into the past and future, compared to North Americans. In particular, research has found that Chinese participants consider past information to be more important, and recalled past information in greater detail, than did their Euro-Canadian counterparts (Ji et al., 2009). Furthermore, Chinese participants perceived both the past and future to be closer to the present, accessed information further into the past and future, and perceived greater continuity in the self over time, compared to North Americans (Ji et al., 2019). These cultural differences in temporal focus may have to do with the depth of cultural history, but they may also reflect different thinking styles.

In sum, East Asians are more likely than North Americans to emphasize contextual information, not only in the perception of physical objects but also in judgments with social implications. East Asians look further into both the past and future for information and predict more change, especially nonlinear change, for the future. All these differences have important implications for business contexts such as information exchange, marketing strategies, and investment decisions.

5.4.1 Cognitive Style and Information Exchange

From the previous section, we have learned that relative to Westerners, East Asians are more contextually driven (Ji et al., 2000; Masuda & Nisbett, 2001), more holistic (Peng & Nisbett, 1999), and more nonlinear (Ji et al., 2001). If so, one may expect that when presenting information, East Asians tend to include more information in limited space than their North American counterparts. This prediction has received empirical support. For example, studies of scientific posters created for academic conferences have found that posters by East Asian authors included more information than those by North American authors (Wang, Masuda, Ito, & Rashid, 2012), who tended to leave out peripheral details and presented only the essential parts of their work. In contrast, East Asian authors packed more supplementary information onto their posters, consistent with their stronger sensitivity to contexts. Similarly, a Western executive working for a Chinese firm has observed that presentation slides shown in Chinese business settings tend to be packed with detail; Western-style slides with plenty of space left are perceived as lacking useful content (Ross, 2020).

Beyond academic posters and business presentations, similar cultural patterns have emerged in government and university webpages produced in North America and East Asia (Wang et al., 2012). Such observations have also been made about the different designs of some global firms' Japanese webpages compared to their American counterparts. Japanese webpages appear to contain significantly higher levels of information density than their American equivalent ("How Japanese website design differs from the West," 2018).

One can reasonably surmise that these variations in information presentation reflect the different reading speeds and information search preferences of Western and East Asian information seekers. Interestingly, research shows that East Asians are indeed faster than North Americans at examining information on a screen with large amounts of information (Wang et al., 2012), presumably because they are used to absorbing a larger volume of contextual information. Together, all these results point to cultural variations in the search and use of information, with East Asians being more accustomed to a contextually complex environment than North Americans.

5.4.2 Cognitive Style and Marketing Strategies

Cultural differences in context awareness are deep-seated. Such cultural differences emerge not only in poster and website content, but also in the world of advertising. A study using eye-tracking techniques has shown that East Asian participants are inclined to look at the backgrounds of a visual advertisement, whereas North American participants tended to look at the focal objects of a visual advertisement (Aliyev et al. 2018). In another study, after seeing a set of actual TV commercials

by Coca Cola, McDonald's, and Olay, Chinese participants recalled more background items in the commercials (e.g., location, furniture, weather, and Christmas lights) than did their American participants. In contrast, American participants were able to remember more foreground items in the commercials (e.g., focal characters, objects, and products) compared to their Chinese counterparts (Liu, 2010). These findings on contextual information and marketing replicated prior cross-cultural research (Chua, Boland, & Nisbett, 2005; Masuda & Nisbett, 2001), with various implications for commercial designs in different countries.

Findings on culture and contextual awareness have been applied in the business domain by top brands around the world. For example, an examination of Coca Cola, McDonald's, and Olay's TV commercials reveals that clearly different cinematographic styles are used for the commercials aired in China compared to those aired in the United States, even though the central messages and plots of the two versions are identical. More specifically, long shots, in which the focal object is relatively small and that leave large spaces to reveal elements in the background, are used more frequently in the Chinese version of the commercials than in the American version. Indeed, Chinese participants considered this version to be clearer, more appealing, and more persuasive than the equivalent American version. Conversely, compared to the Chinese version, the equivalent American commercials contain more close shots, which provide a limited, magnified, detailed view of the character or object in question, leaving little space for background information. As predicted, this close shot version was clearer, more appealing, and, thus, evaluated more positively by American participants, consistent with past research (Liu, 2010).

Another marketing tool for launching a new product is "brand extension," or using an established brand as leverage to sell something new (Jiang, Dev, & Rao, 2002; Swaminathan, Fox, & Reddy, 2001). Brand extension is powerful; to use it properly, however, executives must know when a new product is considered a fit with the parent brand in the eyes of consumers, and when it is not (Aaker, 1990). For example, almost everyone cheered when Sunkist, the orange juice company, introduced its first wave of vitamin C tablets (Moutinho & Chien, 2007). As for Cadbury's? They met a different fate when the chocolate giant tried to sell instant mashed potatoes, which proved to be a brand extension flop (Aaker, 1990; Arruda, 2019).

Viewing brand extension through the lens of culture can generate new insight concerning global firms' marketing strategy. As was discussed earlier, East Asians tend to be holistic thinkers who assume that everything in the world is interconnected in some way. A lighter and a piano may be unrelated on the surface, but the two are linked in the broader context of a birthday party, for instance. This style of thought stands in stark contrast with analytic thinking held by many North Americans, who assume that everything in the world is defined primarily by its internal attributes, with contexts and connections playing little role (Nisbett, 2003; Peng & Nisbett, 1999). Thus, through a long chain of mental extension, East Asians may have an easier time perceiving a fit between a lighter and a piano than North Americans. If so, brand extension initiatives that might attract ridicule in North

America (such as a chocolate company trying to sell instant mashed potatoes) could be justified and evaluated positively in East Asia.

Cultural differences in the reception to brand extension indeed emerged from empirical studies. When asked to evaluate a series of products (e.g., filing cabinet) in terms of how well they fit with the parent brand (e.g., Kodak film), Asian participants perceived greater brand extension fit and evaluated brand extensions more positively than their North American counterparts (Monga & John, 2007). Apparently, for East Asians, film needs storage space after use and no place is as secure as a filing cabinet. With this sort of causal extensions, two seemingly unrelated products can be perceived as relevant and useful to each other.

The cultural insight associated with holistic thinking also presents global firms with another potentially powerful marketing tool in East Asia. The revelation came in 2014, when Yves Saint Laurent's lipstick, Rouge Pur Couture No. 52, priced at around \$54, was sold out worldwide both online and in-store. This craze was ignited by a rumor that the lipstick was worn by the main character of the Korean drama *My Love from the Star*, which went viral in Asia (Character Media, 2014). This phenomenon drew attention to the fact that, given the popularity of Korean dramas (K-dramas), product placement—including Samsung smartphones, Mercedes-Benz cars, and Amorepacific cosmetics—is a powerful advertising tool throughout Asia (South China Morning Post, 2014).

Laurence Lim Dally, founder of the Hong Kong-based marketing consultancy Cherry Blossoms, argued that placing Western products in K-dramas tends to strike a responsive chord among the Chinese consumers more so than other forms of advertisements. This is not only because the Korean stars are more relatable to the Chinese consumers than Western stars, but also because the storyline of many K-dramas vividly and convincingly portrays a lifestyle in which the use of Western products seems natural and appropriate in an Asian setting (The Luxury Channel, n.d.).

Incorporating product information within a context-rich setting, an approach congruent with holistic thinking, may not be easily accomplished to the same extent through other venues of advertisements, including TV commercials, which are typically less than 60 s in length. The ease with which K-dramas seamlessly blend Western products with Asian lifestyles therefore gives this genre a clear advantage as a stage for product placement in the East Asian consumer markets. However, this does not necessarily imply that K-drama is the only suitable venue for product placement that is appealing to East Asian consumers. Other films or TV shows that emotionally engage a product's target demographic can also be potentially successful.

In sum, marketing strategies are inseparable from the cultural considerations of cognition. The kind of information people find useful or appealing in advertisements have much to do with their thinking styles, which vary across cultures. Next, we discuss how thinking styles can impact investment decisions.

5.4.3 *Cognitive Style and Investment Decisions*

The ecology of the stock market has become more spontaneous and complicated than it was decades ago. With the help of a smartphone or tablet, people can now become their own broker if they want to. But stock trading is never straightforward. Investors or brokers, especially those who look for short-term profit, routinely need to make snap decisions for their stock holdings. Once in the game, there is little time to consult financial analysts, interview authority, or delve into long research reports. All these features have contributed to the overall context of the stock market, which is an environment driven by trading activities under a high degree of uncertainty. Behaviors on the Big Board—to buy, sell, or hold a stock—provide a naturalistic setting for the psychological study of predictions, for it is about making inferences about the future based on the past.

As discussed earlier, from studies on the lay theories of change, we have learned that the basis of life is assumed to be cyclic and nonlinear in East Asian cultures, and stable and linear in North American cultures (Ji et al., 2001; Ji, 2008). Change is an inevitable part of life in the eyes of many East Asians; things can deviate from the way they look, and what appears to be could in fact be the opposite of what truly is (Lee et al., 2019). Such a nonlinear view of life is in sharp contrast with the linear view held by many North Americans. Does this cultural difference manifest in the decisions of stock trades in the two regions? Suppose a stock is on the rise and things are looking promising. To the extent that this scenario applies to the theories of change, North Americans, who are accustomed to linear predictions, should be motivated to buy the stock or not to sell it, with the expectation that the rising trend will continue. But East Asians may have a different reaction. With their tendency for nonlinear predictions, we can expect East Asians to be motivated to sell that rising stock or not to buy it, with the expectation that behind the rising trend hides a source of peril.

This is indeed the case. When asked to decide what to do with a series of stocks with their past 15-day price trends provided, Chinese participants were more likely to sell the stocks that were on the rise, compared to Canadians who were more inclined to buy them (Ji, Zhang, & Guo, 2008). In contrast, for stocks that were plummeting, Chinese participants were more likely than North Americans to keep them. If the Chinese language is any window into a nonlinear way of thought, then “舍得,” or “willing to part with something,” may roughly capture the spirit: Without letting go (舍), there is no gain (得).

Many business decisions involve temporal information. The extent to which people take distant past or future information, or present information, into account may depend on their cultural background. As discussed, East Asians tend to have a broad focus on temporal information, in that something even from the distant past is likely to be taken as a basis of judgments and decisions. In contrast, North Americans tend to have a narrow temporal focus, in that they are disinclined to look far into the past and the future for information or consider such information as relevant to the task at hand (Guo et al., 2012; Ji et al., 2009; Ji et al., 2019). In stock decisions, studies

reveal that Canadian participants tended to take recent trends into consideration, whereas Chinese participants tended to make decisions based on overall trends (Ji et al., 2008; Ji & Kaulius, 2013).

Cultural differences in temporal focus may have important business implications because business decisions, big or small, likely involve inferences based on past information. Disagreements on the relevance of past information, if not well understood, can hinder effective communication, decision-making, or negotiation in an international business setting involving North American and East Asian players. Conflicting emphasis on temporal information could result in poor communication between a multinational firm's headquarters in East Asia and its subsidiary in North America, difficult decision-making in a joint venture between East Asian and North American partners, or conflicts between an East Asian firm and its North American clients, to name a few.

In sum, culture shapes the way people think. Distinct styles of thinking associated with cultural groups in the East and the West manifest in the attention to contextual information and beliefs about change, reflected in the search and use of information in business contexts, advertisement strategies and styles, brand extension, as well as stock market decisions.

5.5 Final Thoughts

5.5.1 The Impact of Culture on International Business in the Asia-Pacific Region

This chapter reviews influential frameworks of cultural psychology with a particular focus on the differences between the North American and East Asian cultures. It also analyzes the implications for management and business across cultures. The models of the self and thinking styles discussed in this chapter offer parsimonious explanations for a host of differences between North Americans and East Asians in terms of the patterns of thoughts and behaviors as employees, consumers, and decision-makers. These differences have profound impacts on how North American (or Asian) firms can effectively manage their local employees, market their products, communicate information, and make investment decisions in the Asia-Pacific region (or North America).

With respect to the management of local employees, this chapter specifically examines East Asians' attitudes towards managerial authority, the dynamics of East Asian work groups, and self-representation tendencies of East Asian employees. This discussion clearly highlights the need to adapt many North American management practices in the Asia-Pacific context. Furthermore, culture is also shown to affect consumer-related thoughts and behaviors in the Asia-Pacific region. In this chapter, we explore East Asian consumers' motivations behind their public and private consumption, their receptiveness to the various brand positioning and

extension, as well as various advertising messages and delivery styles. In the process, we analyze a number of examples to shed lights on the potentially successful marketing strategies that North American firms can employ in the Asia-Pacific region. Finally, culture also shapes the way people process information and make sense of change. We discuss systematic patterns in how East Asians interpret business environment, communicate information, and forecast future. This insight, we believe, can help North American managers to become more effective in communicating and collaborating with their East Asian colleagues and business partners. Likewise, East Asian firms can benefit from the insights regarding North American cultures when developing marketing and management strategies in North America.

5.5.2 *Some Caveats*

Before closing, it is important to make a few clarifications to prevent misinterpretation. First, our focus on cultural diversity is in no way implicative of the absence of cross-cultural similarities. Humans have much in common, evolutionarily, cognitively, developmentally, socially, and culturally. In fact, it is the commonalities of cultures that make international business activities possible. Successful endeavors in science and in business require the considerations of both cultural similarities and differences. Second, although North Americans and East Asians are often framed as two big regions of cultures, nuanced differences can be found among the cultures within each region. For example, while the United States and Canada are close in terms of location and individualistic in terms of values (Hofstede, 1984), the two neighbors do differ somewhat in the importance assigned to individual freedom. A Pew Research survey in 2004 (Pew Research Center, 2004) found that nearly 58% of Americans believe that freedom to pursue their life goals is more important than guaranteeing that no one is in need, while only 43% of Canadians agree with the idea. Likewise, regional differences exist among the Japanese, the Koreans, as well as the Chinese (e.g., Miyamoto, et al., 2013; Yates, et al., 2010), even though they are often sorted together as an umbrella group in this chapter and many other cross-cultural studies. For example, when Japanese, Taiwanese, and mainland Chinese employees were asked to respond to the supervisor's direction in hypothetical workplace situations, mainland Chinese employees were the most compliant, followed by Taiwanese, and then by Japanese employees (Bu, Craig & Peng, 2001b). North American firms, which often staff their operations in mainland China with executives from Hong Kong, Taiwan, Singapore, Japan, Korea, or even ethnic Asians from North America (Miller, 1998; Li, Xin, Tsui, & Hambrick, 1999), are advised to be cognizant of cultural variations within East Asia.

Third, variability exists within a single country, and this chapter by no means suggests that everyone in an entire country thinks, feels, or acts the same way. Most empirical studies, reviewed in this chapter or not, have pitched their analyses at the group level, meaning that results are representative of the group. For example, we expect an average American citizen to think analytically and an average Chinese

citizen to think holistically, as past research showed (e.g., Nisbett, 2003). These findings can sometimes invoke views of dichotomy that remove individual variability within a cultural group. Such views are overly simplistic. Recognizing the variability within a country, however, does not dilute the importance of studying differences around the world (Geertz, 1973). In fact, numerous research programs have struck a delicate balance between the two (e.g., Leung & Cohen, 2011; Schug, Yuki, & Maddux, 2010). Executives, leaders, and supervisors are encouraged to go beyond the “one-size-fits-all” assumption in their managerial practices.

Finally, many individuals can identify with more than one culture. With the rise in international migration, education, and business, the global population has become increasingly bicultural or even multicultural (e.g., Hong, Morris, Chiu, & Benet-Martínez, 2000; Nguyen & Benet-Martínez, 2012). These bicultural and multicultural individuals are proving to be invaluable assets for successful international business in Asia, the West, and other parts of the world (Liu, Gao, Lu, & Wei, 2015; Fitzsimmons, Thomas, & Liao, 2018).

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Part III
Asian Firms' Business Strategies
in the New Century

Chapter 6

The Broad and Pivotal Roles of Taiwanese Electronics Industry in the Global Electronics Supply Chain: A Case Study of Foxconn and TSMC



David Hao and Nailin Bu

6.1 Introduction

The global supply chain of the consumer electronics industry can be broadly divided into the labor-intensive segment and the capital-intensive segment. A production activity in the electronics sector can, intuitively, be sorted into one of these two segments based on whether it is more contingent on human labor (labor-intensive) or machinery and technology (capital intensive). The electronics industry of Taiwan, an island of 24 million people, is a pivotal player along the entire global consumer electronics supply chain, being notable for leading both the capital-intensive segment, such as the production of semiconductor chips and other electronics components, as well as the labor-intensive segment, including final assembly of personal computers and smartphones. This landscape is rather unique compared to other Asia-Pacific economies, most of which specialize or lead in only one segment of the value chain.

In this chapter, we will examine the pivotal roles played by the Taiwanese electronics industry in both the labor-intensive and capital-intensive segments of the global electronics supply chain by focusing on two Taiwanese giants, Hon Hai Precision Industry (better known as Foxconn) and Taiwan Semiconductor Manufacturing Company (TSMC), both of which are the undisputed global leader in the respective supply chain segment in which they compete. We will study Foxconn, the world's largest provider of electronics manufacturing services, as the example for the labor-intensive segment of the supply chain, while TSMC, the

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world's largest independent semiconductor manufacturer, will serve as the case study for the capital-intensive segment.

The rest of this introductory section will provide a brief overview of the Taiwanese electronics industry's major players in the capital-intensive and labor-intensive segments, and their critical impact on the electronics industry in the Asia-Pacific region and around the world. This will be followed by two major sections that are dedicated to an in-depth examination of Foxconn and TSMC, respectively. In particular, we will analyze the two focal firms' respective "playbook" that has led to their enormous success, and explore the emerging challenges they face and their strategic responses to these challenges. Finally, we will conclude with a brief assessment of the future prospect of these two firms, and by extension, Taiwan's electronics industry in general.

6.1.1 Taiwanese Electronics Industry in the Labor-Intensive Supply Chain Segment

6.1.1.1 Putting It All Together: Taiwan's EMS and ODM Players

Within the labor-intensive segment of the global electronics supply chain, Taiwanese electronics firms have historically excelled as the contract manufacturers for their clients, many of which are the world's leading consumer electronics companies, such as Hewlett-Packard, Dell Computer, Lenovo, Apple, and Huawei (The Economist, 2013a, 2019b). Taiwanese contract manufacturers provide either electronics manufacturing services (EMS) or original design manufacturing (ODM) services. EMS firms are generally defined as those whose services for their clients are limited to the production process, including component sourcing, circuit board assembly, final assembly, and testing. ODM firms, on the other hand, are those that not only look after the production process for their clients but also assist them in product design (Sturgeon & Kawakami, 2010). These Taiwanese EMS and ODM firms source hundreds of electronics components from Asia and beyond and coordinate the logistics of getting them into their plants around Asia at the right time to be assembled into the electronics products on which the whole world has come to rely (The Economist, 2019b). Owing to the services provided by Taiwanese EMS and ODM firms, many leading consumer companies are able to market products under their own brands without the need to run their own factories.

6.1.1.2 Across the Strait: The Importance of China to the EMS/ODM Firms

The success of Taiwanese firms in the EMS/ODM space was rather opportune. Historically, cost has been one of the biggest drivers for EMS/ODM firms, which prompted them to seek out the cheapest labor force possible. They found this in China, where the availability of a massive labor pool was made even more enticing

by a supportive government, which created special economic zones in the 1980s to attract foreign investment. The electronics firms in Taiwan, given their physical proximity to, and cultural and linguistic alignment with, China, became amongst the first to quickly set up bases of operation in government-supported hotspots, such as the southern city of Shenzhen. Soon, aided by China's state subsidies, they were able to expand quickly and develop economies of scale that outpaced that of its competitors (Dean, 2007). As a result, Taiwanese EMS/ODM became dominant players, assembling 80–90% of the world's laptops and 40–50% of the world's desktop PCs (David & Juang, 2017), even though these products bear the names of Lenovo, HP, Dell, and Apple (The Economist, 2013a). It is estimated that as much as 90% of the electronics hardware produced by the Taiwanese EMS/ODM firms are carried out in factories located in the Chinese mainland, erasing any doubt over the importance of China's vast labor pool to the success of Taiwanese EMS/ODM firms (Zhang, 2018).

However, China is no longer the sole focus today. As geopolitical tensions escalate and China's labor costs rise, Taiwanese EMS/ODMs have begun to sprawl out further across Southeast Asia. Today, factories of Taiwanese firms exist in countries such as Vietnam, Thailand, Malaysia, and Philippines, amongst others. These geographies have developed niches of their own, such as the production cluster of hard disk drives in Thailand (Arthur, 2011; Lee & Ke, 2019).

6.1.1.3 The Biggest Company the Average Consumer Has Never Heard of: Foxconn

Although their products are ubiquitous in everyday life, the major EMS and ODM players are not names that consumers readily recognize. These EMS and ODM companies, by revenue, include Taiwan-based Pegatron, Taiwan-based Quanta Computer, Singapore-based Flex, US-based Jabil, US-based Sanmina, and Taiwan-based Wistron (Clarke, 2019). As can be seen, the top firms are disproportionately Taiwanese. So too is the clear market leader, Foxconn.

Founded in 1974, Foxconn is the world's largest contract electronics manufacturer, producing a plethora of electronic goods for global brands like Apple, Google, and Sony. The firm gained global attention after emerging as the primary manufacturer of Apple's core products, including the iPhone and iPad. Today, Apple is believed to contribute around 50% of Foxconn's annual revenues (Li, 2018). Foxconn boasts the status of being China's largest private employer, employing 700,000 Chinese employees, down from a peak of 1.3 million around 2010 (Merchant, 2017; Wu & Lin, 2019). In addition, Foxconn has manufacturing operations in Europe, Brazil, India, Japan, Malaysia, Mexico, South Korea, and some preliminary investment in the United States (Duhigg & Bradsher, 2012). The company is undoubtedly a leader within the labor-intensive segment of the global electronics supply chain, owing to its unrivalled scale. This makes Foxconn an ideal subject to study as its past growth and future challenges are reflective of the many Taiwanese electronics firms occupying the same segment of the supply chain.

6.1.2 Taiwanese Firms' Position in the Capital-Intensive Supply Chain Segment

6.1.2.1 Bits and Bobs: The Role of Electronic Components

A major piece of the puzzle in electronics assembly is the components that go within each device on the assembly line. The typical smartphone contains a plethora of components that greatly range in complexity, and this complexity has been escalating as products evolve. A teardown of the iPhone X found that the bulk of component costs lie in the OLED display (30%), the cameras (9%), memory chip and RAM (9%), and Apple's flagship A11 processor (7%) (Segan, 2017). Predictably, the most expensive components are also the most complex. While Foxconn's primary business has been the final assembly of these components into finished goods, the design and production of these high-value components is the concern of the capital-intensive segment of the value chain. Taiwan's role in this segment of the supply chain, just as with the labor-intensive segment, is disproportionately large. As of 2019, Taiwan boasts the title of being the home base of the largest number of Apple's suppliers, ahead of both China and the United States (Apple Corporate Website, 2019) (see Fig. 6.1). One may wonder how a small island has miraculously accomplished this—the key to Taiwan's success began with semiconductors.

6.1.2.2 The Semiconductor Supply Chain

Semiconductors are the most foundational building blocks within the world of electronics. They are used to power virtually all modern electronics, being integral in the production of integrated chips, electronic components, and electronic devices.

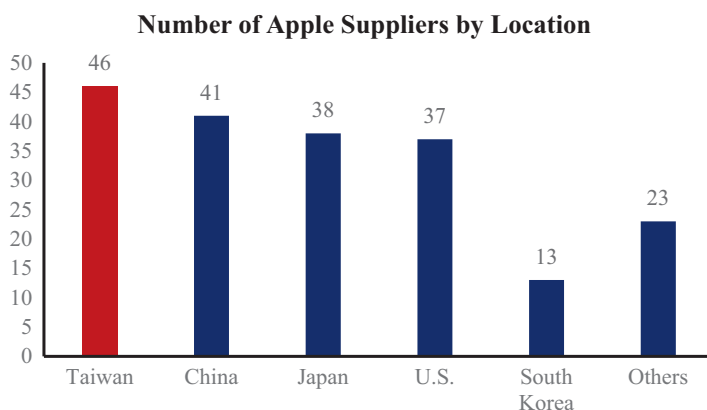


Fig. 6.1 Taiwan hosts the greatest number of Apple suppliers globally, outnumbering both China and the United States. *Source:* Based on information from Apple Corporate Website. 2019. Apple supplier list. <https://www.apple.com/ca/supplier-responsibility/>. Accessed 2 July 2020

Taiwan's long-standing strength has been in its presence throughout the semiconductor supply chain.

The semiconductor supply chain can generally be divided into three steps: the design of chips, the fabrication of silicon wafers and integrated chips, and finally the packaging of integrated circuits into commercial products (Batra et al., 2018). Firms that have end-to-end capabilities in this supply chain are known as integrated device manufacturers (IDMs) although most semiconductor firms develop niches and specialize in just one stage of the supply chain due to the immense capital requirements of operating across all three. Let us peek further into each stage of the supply chain.

Silicon Artistry: Fabless Design. Firms that focus solely on the design of semiconductor chips are known as fabless firms. Fabless firms first arose in the 1970s as private equity investors funded semiconductor startups that lacked the capital to build fabs ("fab" is short for "fabrication," also the name of factories that manufacture semiconductor chips) and therefore focused on chip design. Fabless firms rely on design talent, innovative R&D, and established distribution networks as sources of competition advantage.

The two major players within the fabless space include US-based Broadcom and Qualcomm, which command 17% and 16% of the global market, respectively. Due to low barriers of entry, the sector remains generally quite fragmented and contains many other players that specialize in different areas, such as US-based Nvidia and AMD with graphics cards, and US-based Xilinx with programmable logic devices (McGrath, 2019). Taiwan's presence in the fabless space is substantial—Taiwanese firms hold in total an estimated 20% of the global market share as of 2017 (McKinsey Global Institute, 2019). They have done so by securing profitable niches, such as MediaTek with entry-range smartphone chips (Qi, 2019).

Silicon Craftsmanship: Pure-play Foundries. Pure-play foundries do not manufacture semiconductor products of their own design. Instead, they manufacture semiconductor chips for their customers based on their specified designs. The pure-play foundry industry is incredibly capital intensive, demanding constant investment to keep up with the rapidly evolving technological needs of customers. Most of the investment goes into R&D of new processes and the construction of immensely expensive fabs to enable cutting-edge capabilities. Because of the high barriers of entry imposed by capital requirements, few players have the economies of scale to operate in this segment of the supply chain (Batra et al., 2018).

Taiwan Semiconductor Manufacturing Company (TSMC) is the clear global leader in foundries, with over 50% of the global market share. Aside from TSMC, which will be a focus of discussion in this chapter, the major pure-play foundries include Taiwan-based United Microelectronics Corporation (UMC), US-based GlobalFoundries, and China-based Semiconductor Manufacturing International Corporation (SMIC), with 6.9%, 6.6%, and 4.5% share of the market, respectively, as of the fourth quarter of 2020 (TrendForce, 2020).

Silicon Polymaths: Integrated Device Manufacturers. IDMs, as previously described, are firms that design, manufacture, and market semiconductor products. The two largest IDMs are US-based Intel and South Korea-based Samsung Electronics (referring to as Samsung thereafter). For the past three decades, Intel has stood as

the semiconductor industry's single largest titan by revenue, which reached US\$65.8 billion in 2019 (Cho, 2020). Samsung has challenged this crown on multiple occasions, overtaking Intel in 2017 and 2018 when demand surged for Samsung's DRAM and NAND products, before Intel was able to reclaim its leading position in 2019 (Cho, 2020). Some IDMs, such as Samsung, also offer their excess manufacturing capacity to fabless firms and are therefore also foundries (Samsung Official Blog, 2012). No Taiwanese firms are major IDM players.

Silicon Servicing: Integrated Chip Packaging and Testing. At the final stage of the semiconductor manufacturing process comes semiconductor assembly (or packaging) and testing. Many foundries and IDMs carry out these functions for their own semiconductor products, but others outsource at least some portion of them to third-party players. These third-party players are collectively known as outsourced semiconductor assembly and test firms (or OSATs) (Semiconductor Engineering, n.d.). According to Gartner, OSATs accounted for slightly over half of the worldwide semiconductor packaging and testing service revenues in 2017 (Lapedus, 2017).

Taiwanese companies are dominant OSAT players, with approximately 52% of the OSAT market share. Taiwan-based Advanced Semiconductor Engineering, Inc. (also known as ASE Group), is the global leader, accounting for approximately 18% of the OSATs revenue worldwide (*Yole Développement*, 2019). Since packaging and testing are the most labor-intensive stage of the whole semiconductor manufacturing process, these tasks are often performed in countries that have lower labor costs such as China and Malaysia (Verified Market Research, 2019). Unsurprisingly, ASE has substantial presence in these two countries (ASE Group corporate website, n.d.).

6.1.2.3 Beyond Silicon: Electronic Displays

While we have focused on semiconductors, a perceptive reader may have noticed earlier that the most expensive component within the cutting-edge iPhone X was not an integrated chip or processor, but rather the OLED display. Samsung, the world's second largest technology firms (after Apple) by revenue (Fortune, 2020), the largest maker of smartphones (IDC, 2021) and memory chips (Jennings, 2021), is also the largest producer of OLED display. Combined with the NAND and DRAM chips which it also supplies for Apple, Samsung makes more money selling components for iPhones, including OLED screens, than it does selling its own Galaxy smartphones (Gartenberg, 2017). Displays are surprisingly sophisticated—they are becoming increasingly intricate as consumers demand higher fidelity and color quality. We take this brief detour to discuss displays because they have entered the radar of major Taiwanese firms as a gateway to the very lucrative component business, which we shall explore later.

In addition to Samsung, the largest players in the display space are household names, such as Sony and Sharp, as well as rising stars, such as China-based BOE. Keep Japan-based Sharp in mind, as it has an important role to play in our story down the line. Taiwanese suppliers, not to be counted out, also have a major presence in the electronic display sector. Firms like Innolux and AU Optronics have long provided displays for prominent brands like Dell and Lenovo. In fact, one

needs to look no further than the 17-inch touch panel of a Tesla car to find a product from Innolux (Niedermeyer, 2019).

6.1.2.4 One Firm to Rule Them All: TSMC

Returning to semiconductors as our focus for the capital-intensive end of the electronics supply chain, there is one firm that is undisputedly vital to global semiconductor production. Founded in 1987, TSMC is the world's largest semiconductor foundry. As of the fourth quarter of 2020, the behemoth firm commands 56% of the foundry market (TrendForce, 2020), boasts a capacity of 12 million 12-inch equivalent wafers, and serves over 500 different corporate customers (TSMC Corporate Website, n.d.). For comparison, the second largest foundry player in the world, Samsung, holds only a 16.4% share (TrendForce, 2020). TSMC's market capitalization has grown at a steady compound annual growth rate of over 30% to more than US\$590 billion over the past 5 years, as of March 2021 (YCharts, 2021).

TSMC's massive size has lent it unrivalled superiority in economics of scale and R&D expenditure. This lets TSMC offer the most competitive prices in the industry and over 10,000 specialized products in advanced end markets including the internet of things, autonomous vehicles, and high-performance computing (TSMC Corporate Website, n.d.). So far, competitors can only dream of matching these advantages.

TSMC is also responsible for pioneering the pure-play foundry model by focusing only on white-label semiconductor manufacturing, which allows it to avoid any competition with its customers. This is an attractive pitch to customers such as Apple, as foundry competitors like Samsung may appear to have a conflict of interest by producing chips for rival firms while simultaneously operating in the same end markets (TSMC Corporate Website, n.d.).

6.2 The Case of Foxconn: A Leader in the Labor-Intensive Segment

Having established the macro landscape, we now dive into Foxconn to explore more closely the factors that have helped this Taiwanese firm win in the labor-based segment of the electronics supply chain. Simultaneously, we will investigate the emerging challenges Foxconn faces and its strategic responses.

6.2.1 Foxconn's Playbook: Scale and Cost Is King

Winning in the EMS/ODM space is straightforward—offer the lowest prices without going out of business. When customers looking to outsource production, they likely pick Foxconn because it does exactly this.

6.2.1.1 Size Matters

Foxconn has historically been able to lead on prices because of its unmatched size, providing economies of scale that minimizes the firm's overall operating costs. To get a sense of Foxconn's size, recall that Foxconn is China's single largest private employer with 1.3 million Chinese on its payroll at its peak. Foxconn's largest factory campus, located in Shenzhen, China, was dubbed "Foxconn City" and employed as many as 450,000 workers alone at one point (Merchant, 2017; Wu & Lin, 2019). "Foxconn City" contained 15 factories with dormitories for employees (a quarter of the workforce lived on-campus full-time), a dedicated fire brigade, its own TV network called "Foxconn TV," and a city center containing grocery stores, banks, hospitals, and entertainment facilities (Merchant, 2017; Mozur, 2012). It was here where the bulk of all iPhones were produced before other Foxconn iPhone factories popped up elsewhere in China. Foxconn's scale makes it more cost competitive than Chinese firms tapping into their own country's labor market. Huawei and Xiaomi could both hypothetically manufacture their phones in-house using domestic Chinese labor, but they choose to employ Foxconn because it makes better economic sense (Doffman, 2019).

6.2.1.2 Right Place at the Right Time

The origin of Foxconn's size advantage is two-fold. Firstly, the firm was an early mover when China opened its economy, establishing a beachhead in the Shenzhen Special Economic Zone as early as in 1988, when Chinese officials had rolled out a red carpet of tax exemptions, cheap real estate and simplified export laws. Seizing this opportunity, Foxconn was then able to take advantage of the inexpensive migrant workers from China's rural area to quickly expand its labor force, soon establishing two main clusters of operations at the Pearl River Delta in the south, where Shenzhen is located, and the Yangzi River Delta in the east, where Shanghai is located. By this point, it had enough access to cheap capital from private investors and eager local governments that its growth would only continue to snowball (Pun & Chan, 2012).

The second source of advantage comes from the common language and culture that Taiwan shares with mainland China. Compared to electronics industry giants in developed Asian economies like South Korea and Japan, which are also in close proximity to China, Taiwanese firms are uniquely capable of being able to do business in mainland China with minimal language and cultural barriers. This has greatly expedited Foxconn's ability to expand in China and recruit local engineering and managerial talent. In tandem, Foxconn has been able to keep ahead of competitors by erecting steep entry barriers as it can easily price out potential EMS (and ODM) rivals. However, recent shifts in the landscape have caused Foxconn's cost advantage to come under question.

6.2.2 *Emerging Challenges and Foxconn's Strategic Realignment*

6.2.2.1 No Way to Go but Up: Rising Costs in China

China's labor costs have been rapidly rising since the turn of the century. The country's average wage increased by 11.4% annually between 1995 and 2019, significantly outpacing growth in the rest of East Asia (Trading Economics, n.d.). Rising life expectancy combined with the effect of Beijing's now-retracted one-child policy is leading to a rapidly aging society with a steady decline in the proportion of working-age population. China's working-age population, which has begun to shrink since 2014, witnessed a sharp decline and sank below 1 billion for the first time since 2009, causing a major labor shortage in manufacturing (Glenn & Qiu, 2018; Wu & Fu, 2020). The rapid increase of labor cost in China is expected to continue into the foreseeable future.

Foxconn's response 1—Geographic “downstreaming” and automation. Foxconn's management is well aware of the threat that rising costs in China pose to its fundamental business model and have taken steps to mitigate this risk. Foxconn has been investing heavily in automation, with spending reaching US\$4 billion in 2018 (Francis, 2018). In 2015, the firm announced that it would automate 30% of its facilities by 2020. While it is unclear if this 30% target was achieved, Foxconn did report a cut of 60,000 factory jobs in Kunshan (a suburb of Shanghai), China through automation in 2016 (Tang & Lahiri, 2018). Additionally, Foxconn partnered with Chinese software company Megvii to increase automation efficiency (Dai, 2017).

Besides automation, Foxconn has also engaged in geographic “downstreaming” by directing its focus away from coastal China to inland China and other Asian countries, where labor is less expensive. With respect to inland China, Foxconn has made strategic shifts of its Chinese factories, opening new ones in the inland cities of Zhengzhou, Chengdu, and Taiyuan. Here, wages are still playing catch up to their more prosperous coastal counterparts (Hille, 2011). While some iPhones, iPads, and Macs were still being produced in coastal Shenzhen as of 2017, the bulk of production now occurs in inland Zhengzhou, Taiyuan, and Chengdu (see Fig. 6.2). Management has expressed a desire to eventually move all mass production within China to inland facilities, reinventing its coastal factories in locales like Shenzhen as “engineering campuses” for pilot production (Hille, 2011).

Foxconn's response 2—Placing eggs in many baskets. More interestingly, Foxconn is making a push to diversify from China. In 2019, Foxconn started to assemble iPhone XR in India for the local market (Sudheer & Vengattil, 2019). During the same year, Foxconn revealed a US\$213.5 million investment into its Indian subsidiary aiming to expand its existing factories in India (Wu, 2020b). In July 2020, Foxconn was reported to have begun assembling iPhone 11 series in India (Marandi, 2020). In Vietnam, Foxconn is reported to have acquired the usage rights for more land (Wu, 2020b). It appears that Foxconn is under pressure to move more aggressively in diversifying away from China given the quickened pace of



Fig. 6.2 Most Apple products are now being produced inland by Foxconn as costs elevate. *Source:* Based on information from Wu, D., & Cheng, T-F. 2017. Foxconn seeks to raise its own profile after working for others. *Nikkei Asia Review*, July 9. <https://asia.nikkei.com/Business/Foxconn-seeks-to-raise-its-own-profile-after-working-for-others2>. Accessed 12 April 2021; and Shen, J. 2020. Foxconn breaks ground for new chip plant in China. *DigiTimes*, July 22. <https://www.digitimes.com/news/a20200722PD201.html>. Accessed 21 February 2021

similar moves by its competitors. Taiwan-based Pegatron, Foxconn's major competitor and the second largest manufacturer of Apple products, has started to move some of its production of Apple products from China to Indonesia (Hille, 2019a). Both Pegatron and Wistron, a Taiwan-based ODM and the third largest maker of Apple products, are building new factories in Vietnam, although it is not clear whether the factories will make Apple products (Wu, 2020a). Wistron has been assembling some low-priced iPhone models in India since 2017 (Phartiyal, 2020).

The effectiveness of automation and geographic downstreaming for Foxconn remains to be seen, as such initiatives are still in their early stages and have yet to be brought to scale. So far, no iPhones have been assembled by Foxconn in Vietnam (Wu, 2020a) and only a small portion of iPhones are made in Foxconn's plants in India (Li & Cheng, 2019). Replicating the production ecosystem in China that has allowed for seamless operation will be no easy feat, as will be discussed in a later section of the chapter.

6.2.2.2 From "Ping Pong Diplomacy" to Viral Blame Game: US–China Trade War

Directly related to the threat of rising costs in China is the US–China trade war. In 2018, Foxconn's founder and Chairman Terry Gou publicly stated, "The biggest challenge we're facing is the U.S.-China trade war" (Shen, 2018). This economic dispute between the Trump administration and Beijing has resulted in crippling

tariffs on US\$550 billion worth of Chinese products and US\$185 billion worth of American goods since beginning in July 2018 (Wong & Koty, 2020). Foxconn's significant investment in China, including its status as China's largest private employer, is now showing itself to be a double-edged sword as further US tariffs, if affecting Foxconn's products, stand to devastate the firm's export-heavy operations.

The outlook of the trade war remains relatively uncertain. Although the White House and Beijing reached a "phase-one" trade agreement in January 2020, in which China promised to buy US \$200 billion of American goods over 2 years in exchange for a partial reprieve from the punitive tariffs imposed by the Trump administration on \$120 billion of Chinese products (Pramuk, 2020), the more deep-rooted disagreements between the two nations concerning technology transfer and technology rivalry remains unresolved (Kwan, 2020). Further talks to resolve the remaining issues were subsequently sidelined due to the COVID-19 crisis, during which both countries blamed the other for the origin or spread of the virus, which has driven the US–China relationship to one of its lowest points in recent history (Bremmer, 2020). While the new Biden administration is likely less volatile than its predecessor in its dealings with China, most analysts agree that the United States and China will remain at odds when it comes to their bilateral trade relations (Disis, 2021). In fact, in December 2020, then President-elect Biden made it clear that, when he took over the Oval Office, he would not immediately remove the punitive tariffs imposed on China by former President Trump (Lee & Kimball, 2020). Although Foxconn's American clients like Apple have so far safeguarded Foxconn's exports from China (most notably iPhones) from punitive US tariffs as the United States is hesitant to target product categories that would dampen profits of the most iconic American firms (Borak, Collins, & Liptak, 2019), the possibility of a rapidly deteriorating trade environment cannot be discounted given that the strategic rivalry between the United States and China has further deepened (Shangguan & Seow, 2022).

Foxconn's response 1—A balancing act. Keeping the punitive American tariff off assembled-in-China iPhones and other Apple devices is clearly important for Foxconn. Therefore, after the election of Donald Trump in 2016, a campaign by Foxconn to appease President Trump and strike a difficult, if not impossible, balance between Washington and Beijing moved into high gear. In July 2017, standing alongside a beaming President Trump in the White House, Terry Guo, Foxconn's founder and chairman, announced that the company would invest US\$10 billion into a plant to manufacture liquid crystal displays (LCDs) in Wisconsin, creating 13,000 jobs (Hess, Quirmbach & White, 2020; Waldmeir, 2018). However, this plan may be ill-fated—in 2019, it was revealed that the LCD plant might not materialize as it was hard to justify the investment given the labor cost in the United States (Beddor, 2019). Instead, Foxconn would establish innovation centers, creating an estimated 1500 jobs—a substantial drop from the promised 13,000 (Patel, 2019). By that point, Wisconsin governor Tony Evers had called for renegotiations of the promised US\$4 billion tax break offered to Foxconn by the previous governor to protect taxpayers, citing the deal with Foxconn as "no longer in play." Later that year, Foxconn announced that plans for the manufacturing plant would indeed

proceed, producing smaller items such as tablets, glass for tablets, and phones at the plant instead of LCDs. Analysts remain skeptical (Cohn, 2019).

Foxconn's response 2—Cloning China. Besides the delicate dance with President Trump, Foxconn's cost-saving investments outside of China, including India and Vietnam, also double as a hedge against the potential wrath of the trade war. The firm now claims that 25% of its total capacity is outside China, enough to satisfy all US-bound iPhone demand if the threat of US tariff on Chinese-made smartphones materializes (Wu, 2019). However, this push to other Asian countries would force Foxconn to rethink its operating model. The experiences of other Taiwan-based firms outside of China foretell challenges for Foxconn. Firstly, China has over the years built an unparalleled electronics supply chain, or "the great chain of China" as the Economist put it (The Economist, 2018b: 61). For example, as of 2019, of a total of 198 component suppliers for the Apple products, 41 are Chinese firms, compared to 46 Taiwanese firms and 37 American firms. This makes China the second largest home country of all Apple suppliers. More importantly, China is by far the largest host countries of Apple's supply chain. Of the 809 production facilities around the world that makes components for Apple products, 380 are located in China (Apple Corporate Website, 2019) (see Fig. 6.3). This means that even if an Apple supplier is not based in China, it likely operates manufacturing facilities there. Secondly, China also boasts well-organized logistics, supported by extensive network of expressways and railways, well-located modern container ports along its Pacific coast, and efficient customs clearance procedures, all of which can be challenging in India and some Southeast Asian countries (Shih, 2020). Thirdly, it has been observed that workers in Southeast Asia are not as willing to travel far from home

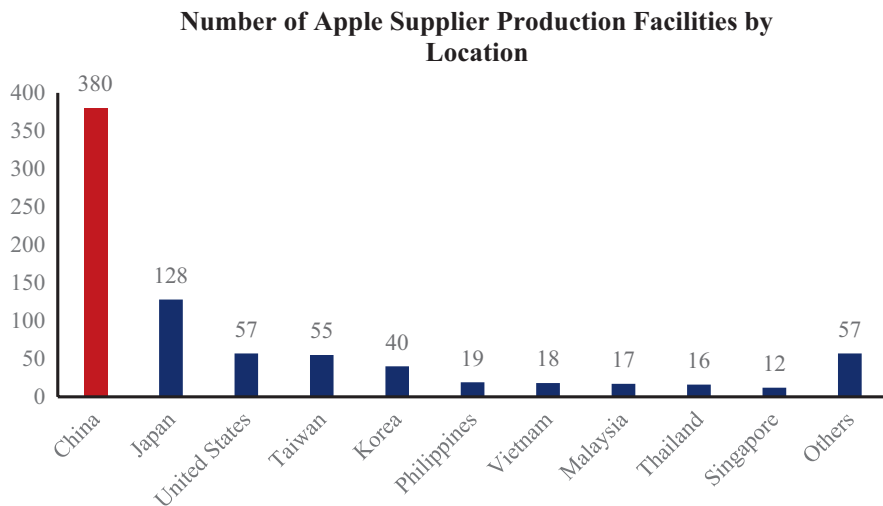


Fig. 6.3 China is home to the overwhelming majority of production facilities that directly supply Apple. *Source:* Based on information from Apple Corporate Website. 2019. Apple supplier list. <https://www.apple.com/ca/supplier-responsibility/>. Accessed 2 July 2020

for work or live in on-campus dormitories as do Chinese migrant workers. This would restrict the size of any single factory in Southeast Asia to a workforce of around 20,000. Foxconn's factories in China are many times that size (Hille, 2019a). It turns out that it is not trivial to "clone" China elsewhere.

6.2.2.3 From Smartphone to Smarter Devices: Macro Shifts in Demand

While rising wages in China and the US–China Trade War have put pressure on Foxconn's costs, the firm is also facing macro shifts in demand that threaten its topline. The bread and butter of Foxconn's business has been the production of traditional consumer electronics like smartphones, tablets, and laptops. However, the firm's reliance on these products may limit Foxconn as this space is maturing. Global PC and tablet markets have witnessed a downward trend for a number of years (IDC, 2020; Richer, 2019b). Since 2016, global smartphone shipments—a category representing a lion's share of Foxconn's revenues—have dropped every single year for a net decrease of 7% (Richer, 2019a) (see Fig. 6.4). iPhones alone fell 10.7% year-over-year in 2019 (Lovejoy, 2019) although iPhone had a very strong fourth quarter in 2020, especially in China, due to the release of 5G enabled iPhone 12 (Lovejoy, 2021).

Growth in manufacturing has instead shifted towards more advanced AI-driven products like smart speakers, medical devices, and robotics. Global investment in

Worldwide smartphone shipments and year-over-year shipment growth (in million units)

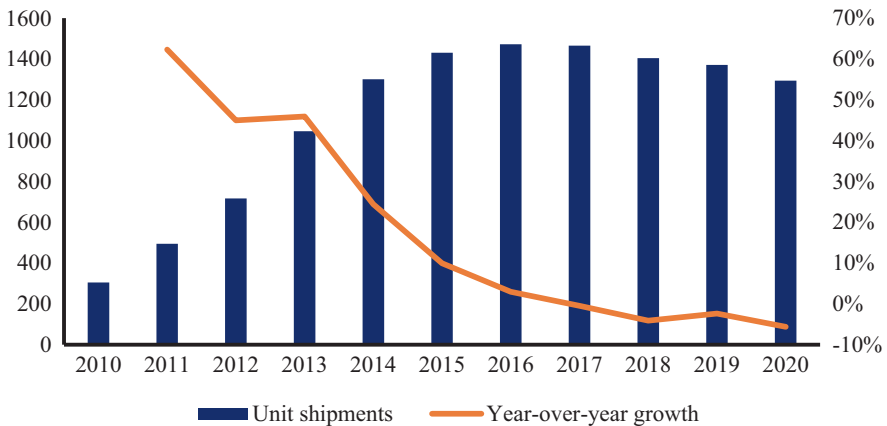


Fig. 6.4 Smartphone growth has steadily declined since 2010, becoming negative in 2017. *Source:* Based on information from IDC. 2021. Smartphone shipments worldwide from 4th quarter 2009 to 4th quarter 2020 (in million units) [Graph]. In Statista. January 27. <https://www.statista.com/statistics/728644/quarterly-global-smartphone-shipments-by-quarter/Smartphone-shipments-worldwide-from-4th-quarter-2009-to-4th-quarter-2020>. Accessed 17 March 2021

artificial intelligence is expected to grow aggressively by 36% annually through to 2025, which would drive significant manufacturing demand for advanced, “smart” goods (Wu, 2018). According to International Data Corporation’s forecast, worldwide shipments for smart home products will grow by a 5-year compound annual growth rate of 14.4% through to 2023 (IDC, 2019), significantly outpacing growth in smartphones. In particular, China has been identified as the fastest growing market for such products, with a 5-year compound annual growth rate of 22.6% (EP&T, 2019).

Given that Foxconn’s core business of electronics assembly already has razor-thin margins (The Economist, 2012), this set of pincer forces has made a deep dent on its profitability. Foxconn’s net profit was down 10.7% to US\$3.81 billion year-over-year in 2019, declining 24% in the last quarter of 2019 alone (Lee, Shen & Blanchard, 2020).

Foxconn’s response 1—A “Sharp” turn into the LCD and chip businesses. Foxconn has been proactive in entering the electronics components business to pursue better margins (Nakamura, 2015). This strategic move has taken on some urgency as the demand in its core markets stalling and costs on the rise. In 2016, Foxconn paid US\$3.5 billion to acquire Sharp, a centuries-old Japanese pioneer of the electronics industry (Harding & Inagaki, 2016). This deal has been accretive for Sharp, which has seen the production costs of its home appliances drop by 15% since joining Foxconn’s manufacturing sphere (Inagaki, 2019). For Foxconn, this acquisition gives the firm control of an instantly recognizable electronics brand and proprietary technology in LCDs, in which Sharp is a market leader. This last piece is critical, as it represents Foxconn’s formal push up the value chain into the section of the components business which tends to command a substantially higher margin than that of final assembly. Incidentally, Sharp’s biggest components customer is Apple, which constitutes a quarter of its total sales (Iakamura, Chiba & Osawa, 2018).

The Sharp acquisition also equipped Foxconn with semiconductor design and manufacturing technology for the first time in the firm’s history—technology which Foxconn was eager to exploit with a flurry of semiconductor-related deals in recent years with local governments in China (Cheng, Li & Ihara, 2018). For example, in the summer of 2018, Foxconn announced plans to develop semiconductor design services, and semiconductor equipment and chip design operations in Zhuhai, a southern Chinese city, in collaboration with the city’s government. In October of the same year, Foxconn entered a cooperation deal with the government of Jinan, in the Shandong province, to set up a joint industrial fund of nearly US\$530 million to develop the city’s semiconductor sector, which will involve establishing new chip design firms. A month later, the company reached an agreement with the government of Nanjing, a large city on the Yangtze River, to construct a US\$282 million new factory to make chip manufacturing equipment (Zhang, 2020). In early 2020, Foxconn signed an agreement to build a semiconductor assembly and test plant in Qingdao, an eastern port city in Shandong Province (see Fig. 6.2 for the plant’s location), which is jointly financed with China’s Rongkong Group. The new plant, which broke ground in July 2020 and is expected to reach full capacity by 2025, will focus on the packaging and testing of application-specific integrated circuits used in

5G communications and artificial intelligence (AI) hardware products (Shen, 2020; Zhang, 2020).

Foxconn's response 2—Leapfrogging into the advanced technology space. Since around 2016, Foxconn has also made multiple acquisitions in an attempt to leapfrog into products in the newer and more advanced technology space. In 2019, the firm stated that the majority of its US\$955 m to US\$1.5 billion per year capital expenditure would now be channeled to develop technological capabilities for advanced technology fields, including 5G, automotive electronics, industrial internet of things, medical applications, and semiconductors (Hille, 2019b, 2019c).

In 2018, Foxconn acquired Belkin (Boom, 2018), a California-based maker of smart home devices, following earlier investments, including Beijing-based AI tech firm Moran Cognitive Technology (Crunch Base, 2018). Foxconn has also acquired a 20% stake in Japan-based Softbank's robotics venture, which owns Pepper, a popular humanoid service robot in Japan (Inagaki, 2019). Additionally, in 2021, Foxconn took a US\$200 million stake in Chinese electric vehicle startup Byton (Taylor, 2021) and is reportedly in talks with Fiat Chrysler Automobiles to establish a joint venture to manufacture electric cars and develop internet-connected vehicles in China (Naughton & Kubota, 2020). A particularly daring move in Foxconn's push to advanced technologies is the creation of Foxconn Industrial Internet (FII), a subsidiary of Foxconn that provides industrial robots, cloud computing, and intelligent manufacturing services to clients. FII was spun off from Foxconn and held an initial public offering in 2018 on the Shanghai Stock Exchange, raising a record US\$4.3 billion (Wu, 2018).

Foxconn's response 3—Terry Gou's vision fund. Beyond manufacturing, Foxconn is also seeking to replicate SoftBank's famous (or infamous) US\$100 billion Vision Fund, which has sent shockwaves throughout the venture capital community with its staggering size and lead investments in high profile technology companies like Uber, DiDi Chuxing, Grab, OYO, Alibaba, ByteDance, and Nvidia (Paige, Ghosh & Sapra, 2020). Foxconn founder and chairman Terry Gou, despite vowing never to return to management after leaving in 2019 for a failed Taiwan presidency bid, has come back to launch a similar global technology investment fund. Gou envisions this as a driver for Foxconn's future growth and has clearly taken inspiration from the Vision Fund, in which Foxconn is an investor. Gou describes his relationship with Softbank's chairman Masayoshi Son as "just a phone call away," and there is a strong belief that the two will co-ordinate investment strategies once Foxconn's fund is active.

6.3 The Case of TSMC: A Leader in the Capital-Intensive Segment

Moving up the capital-intensive segment of the electronics supply chain, we now take a closer look at TSMC to inspect the factors that have allowed this Taiwanese firm to become the world's largest pure-play semiconductor foundry. Recall that a pure-play foundry is a semiconductor player that focuses only on the manufacturing of chips as opposed to design.

6.3.1 TSMC’s Playbook: Technology Leadership Wins

TSMC is not only the world’s largest semiconductor foundry, but also the most advanced in terms of leading-edge manufacturing capabilities (The Economist, 2018a). As of 2020, TSMC is one of just two firms in the world capable of producing state-of-the-art 5-nanometer chips, the other being Samsung (Herh, 2020). In the semiconductor industry, the smaller the nanometer, the more advanced the chip (and the more difficult it is to develop and manufacture). TSMC, alongside Samsung, was first-to-market with both the current 5-nanometer chip as well as the previous generation 7-nanometer chip (Toulas & Vatu, 2020) (see Fig. 6.5). TSMC’s leading technology has made it very attractive for customers. In 2019, in its attempt to challenge Intel in the CPU market, US-based fabless semiconductor firm AMD switched its chip supplier from GlobalFoundries, a US-based foundry once affiliated with AMD, to TSMC for its superior 7-nanometer chips (Hruska, 2018). As TSMC’s customers include technology innovators like Google, Apple, and Huawei, who consistently demand the best, TSMC’s technology leadership has kept pace.

6.3.1.1 Born in Silicon Valley East

The origin of TSMC’s technology leadership can be traced back to the Taiwanese government’s intelligent planning and keen foresight decades ago. In 1973, Taipei decided to support the then-budding semiconductor industry by establishing the Industrial Technology Research Institute (ITRI), a public R&D institution funded by the government, as well as the Hsinchu Science Park, a high-tech cluster located

	2013	2014	2015	2016	2017	2018	2019	2020	2021F
TSMC		20 nm	16 nm+ finFET	10 nm	7 nm 12 nm		7 nm+ EUV	5 nm EUV	
Samsung	28 nm	20 nm	14 nm	28 nm FDSOI	10 nm	8 nm	7 nm EUV	18 nm FDSOI	5 nm EUV
GlobalFoundries	28 nm		14 nm	22 nm FDSOI		7 nm		12 nm FDSOI	
Intel		14 nm finFET		14 nm+	14 nm++	10 nm+			7 nm
SMIC		28 nm					14 nm finFET		7 nm
UMC	28 nm				14 nm finFET				

Note: finFET, FDSOI, and EUV are each specialized methods of producing semiconductors that are generally believed to provide superior performance over alternate methods for the equivalent nanometer specification.

Fig. 6.5 TMC has consistently remained a technology leader among foundries by offering the newest products*

*Lower nanometer represents more advanced semiconductor chips

Source: Based on information from Any Silicon. 2019. Semiconductor foundry process roadmap. February 27. <https://anysilicon.com/semiconductor-foundry-process-roadmap/>. Access 12 April 2020

near Taiwan's best universities with an environment that was meant to mimic the setting of Silicon Valley. It was under these conditions that a number of Taiwanese technology firms were formed using public funding, some of which were later spun off into independent companies (So, 2006). United Microelectronics Corporation (UMC), the world's second largest pure-play foundry by production volume after TSMC, was created this way. Many Taiwanese scientist and engineers abroad returned home during this time, enticed by the bustling activity, including Texas Instruments executive Morris Chang, who came back to lead ITRI. Spotting an opportunity to fill a market whitespace that was pure-play semiconductor manufacturing, Chang left ITRI in 1987 to establish TSMC (Landler, 2000).

6.3.1.2 Brains and Brawn

The rich hi-tech ecosystem in the Hsinchu Science Park fostered a large cluster of semiconductor design firms (also known as fabless firms), which, in turn, created large demand for semiconductor fabs such as TSMC and UMC (VerWey, 2019). In this environment, under the visionary leadership of Morris Chang, TSMC expanded rapidly, which allowed it to commit significant amount of capital to R&D in order to aim for, and maintain, technology leadership. TSMC's dedication of over 8% (US\$25 billion) of its annual revenues to R&D annually would not have been feasible if not for its unrivalled size and subsequent economies of scale (TSMC Corporate Website, n.d.). This strength can be observed clearly through TSMC's operating margins of 35% (TSMC Annual Report, 2019) compared to 25.8% industry average in 2019 (CSIMarket, n.d.). This advantage has let TSMC outpace competition in total R&D spending and stay ahead in an industry where costs get prohibitively high as specifications become more advanced. Few can afford to stay in the game. In 2017, both GlobalFoundries and UMC announced that they would abandon all 7-nanometer (nm) development in favor of improving existing designs, citing capital constraints (CDRinfo, 2018).

To gain a sense of just how expensive advanced semiconductor production is, consider the size of a 5 nm chip. 5 nm is 15,000 times smaller than a single human hair, 1000 times smaller than a red blood cell, and 100 times shorter than the wavelength of visible light (The Economist, 2019a). Not only does the machinery to produce these circuits have to be precise enough to work at molecular levels, but at this scale, a single dust particle can cause catastrophic failure, meaning the main process floor must operate in an airlock at Class 0–10 cleanroom standards—up to 10 times cleaner than a hospital operating room (JJP Architects & Planners, n.d.). Take a moment to imagine how expensive building and operating such facilities would be.

The exact number is US\$17 billion. That is the cost of Fab 18, TSMC's newest 5-nanometer production facility as of 2020, which holds the title of the most expensive factory ever built. For comparison, Tesla's industry-leading factory in Shanghai cost just a fifth of that amount (The Economist, 2019a). On top of all this, in 2021, TSMC announced that it would invest an astonishing \$100 billion over the next

3 years in capacity development (Yang & Jie, 2021). With so little competition at the top, TSMC has flourished in a “winner takes all” market that allows it to cash in on customers looking for the best, thereby securing the capital needed to continue investing in newer advancements that lock out competition.

6.3.1.3 No “Moore”?

The empirical observation that semiconductors have been improving in a predictable pattern is captured in Moore’s Law, which states that every 2 years the number of transistors on a microchip approximately doubles, and the cost is halved (Intel Corporate Website, n.d.) (see Fig. 6.6). In practice, this is due to semiconductor firms constantly racing to produce the best products at the lowest costs. TSMC has always been a frontrunner of Moore’s Law, but this may be jeopardized as Moore’s Law is expected to come to an end soon as the limits of physics draw near.

The 5-nanometer specification was once believed to be the end of Moore’s Law, as at this level, quantum tunneling begins to occur, in which transistors are so physically close to each other that electrons begin to jump from their intended logic gate to other gates. This would make it impossible to maintain a controlled flow (Gartenberg, 2016). Clearly, TSMC has found a solution to quantum tunneling, given their successful commercialization of the 5-nanometer standard. In fact, TSMC has already announced development for 3-nanometer chips, expected to enter production in the second half of 2022 in a newly constructed plant in the Southern Taiwan Science Park (Chen & Shen, 2020).

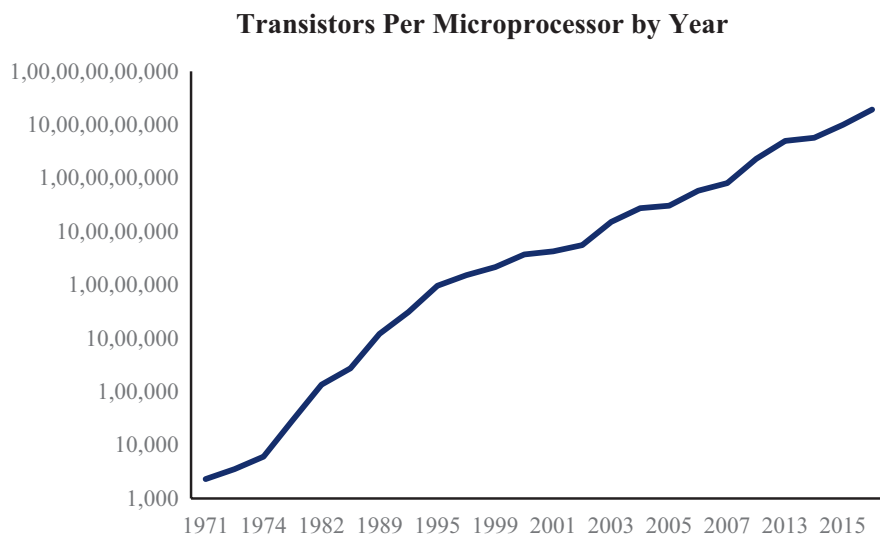


Fig. 6.6 Moore’s Law shows a linear progression in the doubling of transistors per microprocessor. *Source:* Roser, M., & Ritchie, H. 2013. Technological progress. *Our World in Data*. <https://ourworldindata.org/technological-progress>. Accessed 12 April 2020

6.3.2 *Emerging Challenges and TSMC's Strategic Realignment*

6.3.2.1 A Modern-Day “Arms Race”: US–China Hi-Tech Rivalry

The US–China rivalry is not limited to spats on tariffs, which deescalated somewhat as the two sides reached the “phase-one” deal in January 2020. Instead, the root cause of the US’s grievance against China has much to do with the greater contest between an incumbent superpower and a rising challenger (Shangguan & Seow, 2022). The semiconductor sector sits at the very center of this contest (Kwan, 2020).

“Made in China 2025.” It turns out that mass producing foreign branded products for export, aided by firms such as Foxconn, is not China’s end game. In a bid to move away from being merely the “world’s factory” and up the value chain, China has introduced its “Made in China 2025” plan with the aim of increasing Chinese domestic content of core materials and components to 40% by 2020 and 70% by 2025. Beijing has identified the domestic production of semiconductors as the number one priority of these targets (Cheng & Li, 2020a). The reason for this prioritization is one of self-sufficiency and national security. Between 2013 and 2018, China’s balance of trade in integrated chips worsened from a US\$144 billion deficit to a \$227 billion deficit, and this gap is expected to increase in size as the number of chips in the electronic goods assembled in China has been increasing (VerWey, 2019). Furthermore, given that integrated chips have applications in military and other highly sensitive contexts, China’s inability to supply its own chips leaves it vulnerable.

The gloves are off. For many of the past decades, China’s rise as an export powerhouse did not cause a great deal of alarm in the United States other than the frequent complaints about China’s unsavory practices of state subsidies and technological theft. This is mostly because China’s manufacturing efficiency has benefited many American firms by keeping their products price-competitive. However, China’s ambition to challenge the American supremacy in advanced technology as outlined in the “Made in China 2025” initiative is a game changer. “... [T]he age of perceived mutual benefit is over. It is hard for the world’s powerful countries, particularly America, to tolerate a China with a global outlook, access to advanced technology and real geopolitical heft” (The Economist, 2020b: 12).

Huawei, the world’s largest telecom equipment provider and second largest smartphone maker up until 2020, is the poster child of China’s tech success and ambition. Not surprisingly, it is in the *crosshairs* of the US government, which is determined to stop Huawei from dominating the global 5G roll out (The Economist, 2020a). The Trump administration pressured allies to block Huawei from their 5G build out. In May 2019, the US Department of Commerce blacklisted Huawei by adding it to the Department’s “entity list,” which bans American companies from doing business with Huawei without first applying for and receiving a license (Chen, 2019). For Huawei and potentially other Chinese firms, the inability to procure advanced semiconductor chips from US companies, such as Qualcomm and Xilinx would be a huge blow (Addison, 2020). This threat from Washington has come as a

wakeup call to Huawei and Beijing, kicking China's semiconductor industry into higher gear (Kharpal, 2019). So strong was the resolve to achieve semiconductor self-sufficiency that Beijing permitted Yangtze Memory Technologies, a leading Chinese domestic IDM, to continue operating its memory chip facility located in Wuhan, the epicenter of the COVID-19 outbreak, during the entire period of a total city lockdown in early 2020 (Cheng & Li, 2020a). In May 2020, China's largest domestic chip fab SMIC received a \$2.2 billion capital injection from Beijing-backed investment (Horwitz, 2020). Huawei, wary of further attack, has also moved towards more self-sufficiency. Through its wholly owned subsidiary HiSilicon, China's leading semiconductor designer, has designed its own *Kirin* series of processors for smartphones and 5G modem (Kharpal, 2019). Because HiSilicon is a fabless designer, it needs a foundry to manufacture its chips. This is where TSMC comes into the story.

A rock and a hard place. It turns out that TSMC is one of few foundries capable of manufacturing the advanced chips designed by HiSilicon (Hille, 2020; Li & Cheng, 2020b). In fact, according to Li and Cheng (2020b), Huawei became TSMC's second largest customers behind Apple, accounting for approximately 10% of TSMC's annual revenues (Li & Cheng, 2020b). The US's blacklist of Huawei also prohibits foreign firms from selling to Huawei any products that contains more than 25% of materials or components of US origin, but TSMC's export to Huawei falls below that threshold. This, however, did not stop Washington from its determination to cut Huawei off from TSMC's chip manufacturing capability (Hille, 2020). In May 2020, the Trump administration announced a new export control rule that prohibits any semiconductor manufacturer using US technology and software in chip making from supplying Huawei without US government permission, regardless of whether or not the manufactured semiconductors actually contain US materials or components (Fox, 2020). Given that US-based firms, such as Applied Materials and Lam Research, supply more than half of the world's semiconductor manufacturing equipment, TSMC is reliant on the US equipment to run its massive foundries. Therefore, TSMC had no choice but to sever its tie to Huawei (Addison, 2020).

On the other side is China. Chinese firms currently provide approximately 22% of TSMC's revenue. This is dwarfed by the demand from American chip design firms, such as Apple, Broadcom, Qualcomm, and Nvidia, which account for roughly 59% of TSMC's revenue (Wong, 2020). However, with a government-led policy to supercharge the country's advanced technological sectors, the demand from Chinese firms is expected to grow at a much faster pace than that from the United States. Between 2018 and 2019, TSMC's share of revenue from China grew by a stunning 85% (Wong, 2020). The Chinese market is simply too vital to neglect, regardless of the Huawei saga. With its two biggest markets at odds, TSMC is caught between a rock and a hard place.

China Waging a Talent War. To enact "Made in China 2025" and under the pressure of the US-China tech rivalry, Beijing has introduced various measures to support domestic semiconductor industry, including dedicating a total of \$150 billion in investment funds (Yap, 2018). Enormous multi-billion dollar semiconductor fabs

have been co-financed by firms and the Chinese government, enough for China to double its semiconductor manufacturing capacity by 2023 (Woo & Kubota, 2019). The contest for semiconductors, however, will not won by massive investment alone. Technology and expertise, which will take years to develop, are critical. According to a Chinese government white paper, as of 2017, China's talent pool in the semiconductor industry is estimated at 400,000, while it is believed that 720,000 are needed to meet the domestic development goal of expanding the industry's revenue fivefold by 2030 (Cheng, & Sato, 2018).

To attract expertise, China has begun a talent war with Taiwan. The same cultural alignment that once allowed Taiwanese factories to easily leverage China's labor pool cuts both ways. There is minimum language and cultural barriers for Taiwanese engineers to relocate to the mainland. In February 2018, China released 31 incentives to encourage Taiwanese professionals to work in China. These included huge pay increases, free trips home, and generous living stipends. It has worked—as many as 3000 Taiwanese chip engineers have since joined the Chinese chipmakers (Ruehl, 2019). High-level executives were poached too—in 2017, two of TSMC's leading researchers joined SMIC, while in the same year fellow Taiwanese foundry UMC's former CEO joined Tsinghua Unigroup, a Chinese state-backed semiconductor conglomerate (VerWey, 2019).

Furthermore, some Chinese firms have also shown a willingness to “hop the fence” by engaging in industrial espionage. In late 2016, a TSMC engineer was sentenced to a suspended 18-month prison sentence by a Taiwanese court for downloading TSMC trade secrets which he intended on transferring to a Chinese state-owned rival, Shanghai Huali Microelectronics Corp, where he was due to start a new job. In the same year, an engineer at the Taiwan unit of Idaho-based Micro Technology was prosecuted for transferring chip designs to a Chinese chipmaker, Fujian Jinhua. According to a 2018 study by the Wall Street Journal, of the ten recent technology-related prosecution cases in Taiwan, nine was related to technology theft for firms in China (Yap, 2018).

TSMC's response—Being everyone's foundry. TSMC is not interested in taking sides. In response to the intense pressure from Washington to stop supplying chips to Huawei, TSMC's current chairman, Dir. Mark Liu stated, “[w]e are everyone's foundry We will deal with every customer equally and fairly” (Hille, 2020). Nonetheless, TSMC is taking the tightening of export ban by the United States seriously and has stopped taking new orders from Huawei (Cheng & Li, 2020b). TSMC is said to have hired Intel's former chief lobbyist to gauge the temperature in Washington and prepare for any further fallout from the US–Chinese clash (Wu & Gao, 2020).

The Pentagon has also increased pressure on TSMC to move the production of defense-related semiconductors from Taiwan to the United States, arguing that TSMC currently manufactures US Defense Department-approved “military grade” chips that go into F-35 fighter jets and other classified applications. Facing tremendous government scrutiny, TSMC announced in May 2020 that it would invest US\$12 billion to build a new fab in Arizona. In 2021, it was further reported that the eventual investment amount might be raised to US\$35 billion (Kim, 2021). This

would be TSMC's second plant in the United States, the first being built more than 20 years ago. The new fab, expected to begin operating in 2024, would produce advanced 5-nanometer chips directly on US soil, although TSMC is expected to have commercialized 3-nanometer products by 2024 back in Taiwan (Kharpal, 2020). Several sources believe that it is impossible for TSMC's US operations to be as profitable as its Taiwanese ones unless its American clients and the US government shoulder some of the billions of dollars of investment cost (Li & Cheng, 2020b). Washington has taken clear steps to address this barrier—in June 2020, US lawmakers introduced a bill that would offer US\$22.8 billion of aid to semiconductor firms, including a 40% refundable income tax credit for semiconductor equipment and US\$10 billion in fab construction incentives (Nellis, 2020). The timing of this bill's introduction and TSMC's decision to invest in Arizona is no coincidence—TSMC's Arizona plant stands to receive a subsidy of US\$205 million (Kim, 2021). Furthermore, in 2021, President Biden sought a budget of \$37 billion to provide further incentives for semiconductor development and production in the United States given the supply droughts. TSMC's attempt to assuage the US government while limiting losses appears to be a direct page from Foxconn's playbook.

The pressure from Beijing for TSMC to manufacture locally is also persistent, as China gears up to add domestic expertise in semiconductor fabrication. This pressure is likely to intensify given Washington's intention to cut off Chinese firms' access to advanced chip manufacturing as discussed above. While the Chinese semiconductor design firms, such as Huawei's HiSilicon, has advanced at a rapid pace, the Chinese semiconductor foundries are still behind rivals such as TSMC by at least 5–10 years. As of 2020, SMIC, China's largest semiconductor foundry, is only capable of producing 14-nanometer chips, a standard achieved by TSMC in 2013. SMIC's 200-mm wafer capacity, measured in wafer starts per month, is approximately 330,000 as of 2020, while TSMC's is 2,439,000 (Jorgensen, 2020; VerWey, 2019). In other words, SMIC, the foundry champion of China, is still producing chips that are 7 years behind TSMC's state-of-the-art products at less than 15% of the volume. This is the reason why HiSilicon and other Chinese technology innovators find TSMC's manufacturing service indispensable, and why Beijing considers the local presence of TSMC to be a top priority (White, 2019a).

TSMC has conceded to moving some of its low-end manufacturing facilities to China in order to appease Beijing and maintain market access. TSMC opened a 12- and 16-nanometer facility near Nanjing in 2018, following an earlier facility near Shanghai (Industry Week, 2016). In late 2019, the firm signaled intention to continue this expansion. TSMC has acknowledged that costs are higher in the mainland due to the smaller scale of operations but is aware that opening domestic facilities may be the only way to guarantee access to the Chinese market. Dr. Morris Chang, TSMC's founder and chairman until 2018 recently told the firm's investors, "... building a plant [in China] will indeed enhance our access to the Chinese market ... [a]nd reversely, not building a plant there will not enhance." (Bloomberg View, 2016). This is critical for TSMC as 22% of its 2019 revenues came from Chinese firms (Wong, 2020). Furthermore, a large proportion of the chips manufactured by TSMC for their US clients, such as Qualcomm, are shipped to China as

input into the country's massive electronics industry. In fact, 60% of the semiconductor chips produced globally are consumed in China (Comet Labs, 2018). This is precisely why TSMC's customer Qualcomm, in order to assure its access to the Chinese market, has partnered with the Chinese chip foundry SMIC to develop advanced chip production (Mozur, 2015).

While intellectual property and talent leakage is not entirely preventable, TSMC is vigilant in guarding its intellectual properties as it gradually migrates lower end production to China. Firstly, unlike Qualcomm, Intel and IBM, which gained access to China's semiconductor industry through partnerships or technology licensing to Chinese domestic players, TSMC insists on maintaining 100% control over its fabs in China. Secondly, TSMC also ensures that its plants in Taiwan are at least a generation ahead in capability by the time its Chinese plants commence operation (Mozur, 2015).

6.3.2.2 Semiconductor Industry in Flux

A behemoth entering the fray. As mentioned earlier, TSMC sits comfortably at the apex of chip manufacturing space with 55.6% of the global foundry market with Samsung Electronics, an IDM, a distant second with 16.4% of the global foundry market (TrendForce, 2020). With its dominant size, TSMC has been able to keep competition at bay given the enormous capital required to compete. However, for players that can put up the money, such as Samsung, the market potential of semiconductor manufacturing is proving to be very tempting. As identified earlier concerning Foxconn, global demand is shifting from traditional consumer electronics to more sophisticated products in the areas of Internet of Things (IoT), artificial intelligence (AI), 5G, augmented/virtual reality (AR/VR) and blockchain technology. These new applications will further drive up the demand for advanced semiconductors. It is estimated that AI could allow semiconductor firms to capture 40 to 50% of total value from the technology stack, representing the best opportunity for semiconductor firms in decades (Batra et al., 2019). 5G is the biggest of these new trends, with countries like China already dedicating more than US\$400 billion to 5G infrastructure (Amaro, 2019). 5G-supported industries are expected to generate up to US\$12 trillion worth of goods and services by 2035, of which a substantial share is expected to be captured by the semiconductor industry in the form of goods like advanced memory chips, field programmable gate arrays, and radio frequency front end components (Wood & Tong, 2018). Advances in the automotive industry, including vehicle electrification and the development of self-driving cars, are also increasing chip demand. In fact, the worldwide semiconductor shortage, partly spurred by the surge in demand for computer and other electronics devices during the COVID-19 outbreak, has led to extensive production cut in the automobile industry in the early 2021 (Leswing, 2021).

TSMC may have found a worthy competitor in Samsung. Samsung rivals TSMC in semiconductor manufacturing technology, with the two East Asian firms being viewed as neck-in-neck in launching the 5 nm-chips (Shilov, 2019; TSMC Press

Release, 2019) (see also Fig. 6.5). Samsung has reportedly dedicated US\$116 billion to an all-out effort to mass-produce 3-nanometer chips for external clients by 2022—the same year as when TSMC are expected to pass that milestone (Kim, 2020). To further compete against TSMC for US fabless clients with the most cutting-edge chip designs, such as AMD and Nvidia, Samsung is also considering building a chip plant in the United States with a potential outlay of as much as US\$17 billion (Hosokawa, 2020; Jennings, 2021). Samsung appears determined to wrestle the title of the world's biggest contract chip foundry away from TSMC.

Bigger and more sophisticated customers. This era of profound technological transformation has also brought some major changes in the structure of the entire semiconductor industry. Between 2012 and 2017, the number of semiconductor companies fell from 208 to 173 due to mergers and acquisitions. The fabless segment saw the greatest extent of consolidation. The key driver of consolidation has been to achieve cost synergies, efficiencies and acquire expertise. As semiconductor outputs become more advanced, the cost of designing chips also become prohibitively higher. These forces are pushing smaller firms to join the umbrella of industry giants (de Jong & Srivastava, 2019). Another impactful change for the semiconductor industry is the rise of in-house chip design at some of semiconductor industry's largest customers, like Apple and Huawei. Apple now design its core chips for the iPhone, Apple TV, Apple Watch, and some other offerings in-house, and then out-sources chip manufacture to foundries. By opting for in-house design instead of outsourcing the work to external chip design firms, Apple is able to provide a consistent customer experience across devices and develop proprietary differentiated technology. Apple has now become the third largest fabless player in the world, behind Broadcom and Qualcomm. These trends raise the size, and therefore the negotiating leverage, of the customers of chip foundries such as TSMC (de Jong & Srivastava, 2019).

TSMC's response 1—Staying pure. TSMC has demonstrated extraordinary capability in packing ever more computing power onto each chip. From this point forward, however, it will become exponentially more difficult to push against the very limit of physics. For TSMC, the natural implication of this is that its competitive advantage will increasingly rely on the close partnership it holds with its customers, which might also be its competitive advantage over its formidable rival Samsung.

TSMC's long-standing value proposition, besides best-in-class technology, has been its status as an independent pure-play firm. Unlike semiconductor giants such as Intel and Samsung which span the entire semiconductor value chain, TSMC focuses solely on semiconductor manufacturing and does not compete in the same end markets of its own customers (Lee et al., 2010; The Economist, 2018a). These end markets include both consumer electronics (e.g., smartphones, laptops, or telecom equipment) in the case of Apple and Huawei or chip design in the case of Qualcomm, Broadcom, and now also Apple. Even though Samsung promises there is an impenetrable wall between its component business (including chips) and its consumer electronics business, Apple would certainly prefer not to deliver its

flagship processor blueprints to Samsung on a golden platter while the Galaxy smartphone line is a top competitor to the iPhone (White, 2019b). In fact, Samsung was once the exclusive manufacturer of Apple's A-series processor. However, Apple gradually migrated its orders to TSMC as its competition with Samsung intensified in the smartphone market. TSMC became the sole manufacturer of Apple's A-12 processor in 2018 and the partnership continued in 2019 with the A-13 processor (Owen, 2018). Over the years, Apple has also persistently attempted to reduce its reliance on Samsung for memory chips (Kim, 2012; Nellis, 2018). TSMC's intentional absence in other business segments has helped it gain the trust of top customers who would otherwise cast a wary eye.

TSMC's response 2—Becoming customers' virtual fab. In addition to its technological and manufacturing excellence, TSMC also builds close relationship with their customers. It defines itself as their customers' "virtual fab" (Hsieh, Lin, & Chiu, 2002: 110) and has invested heavily in internet-enabled platforms to provide its customers with real-time information on technology, inventory, and shipments as their chip orders move through its manufacturing process (Hsieh et al., 2002; Hwang et al., 2008). As a result, "through interactions with TSMC, customers can have all the benefits of in-house fabrication but without the risks of capital" (Hsieh et al., 2002: 115). In other words, with TSMC, these customers now have their very own virtual fab. Through this strategy of embedding customers within its "ecosystem," TSMC has built substantial capabilities which are not easily imitable even by technologically and financially formidable competitors such as Samsung. According to the resource-based view of the firm (Barney, 1991), this type of capabilities is TSMC's sustainable competitive advantage in the long run.

TSMC's response 3—Be fluid. At the same time, TSMC is not permanently tied to its existing customers. TSMC founder Dr. Chang once attributed his firm's success to good fortune, "[t]he market moved in the direction in which we were heading." (The Economist, 2013b: 55). However, TSMC's success in consistently positioning in the forefront of technological trends might have more to do with its business model than serendipity. By sticking to chip fabrication and never attaching its own brand name to products, TSMC is far more adaptive to the shifting technological landscape than vertically integrated players, such as Intel and Samsung. Intel specializes in, and is a leading brand for, computer processors while Samsung is renowned for its smartphone chips. TSMC excels in manufactures chips for both computer and smartphone sectors. Standing ready to manufacture chips for any rising clients who embody newer technology trends is TSMC's *modus operandi* (Lee, et al., 2010; The Economist, 2018a). Dr. Mark Liu, TSMC's current chairman, points out that TSMC's top five customers always account for roughly half of its revenues, but the company names in the top five change over time. This built-in fluidity is evidence of TSMC's nimbleness during times of technological transformation (The Economist, 2018a).

6.4 Conclusions

The examples of Foxconn and TSMC clearly showcase the enormous achievement of the Taiwanese electronics industry in leading both the capital-intensive and labor-intensive segments of the global electronics production value chain. This is rather unique as most economies have historically dominated only one segment of the value chain. For example, South Korean and Japanese firms tend to congregate in the capital-intensive segment, while Vietnamese, Thai, Filipino, and Malaysian firms are prominent in the labor-intensive segment. Ruchir Sharma, Morgan Stanley's chief global strategist captures the state of global electronics industry succinctly when he stated recently: "Pound for pound, Taiwan is the most important place in the world" (Sharma, 2020).

Two factors contribute to the enormous success of the Taiwanese electronics industry. Firstly, many Taiwanese firms acted decisively to leverage the cultural alignment and common language they shared with mainland China to capture the country's vast labor pool. This allowed these firms to swiftly establish beachheads on the mainland for labor-intensive activities while seeding potential for higher value activities, a move that Japanese and Korean firms could not match. Secondly, many Taiwanese firms were able to rapidly expand their activities up the value chain through innovation, activities which were initially backed by the government (specifically, in semiconductor technology). While the same dynamics unfolded in Japan and South Korea as well, what set Taiwan's electronics industry apart was that it did not simultaneously step off the lower rungs of the value chain. This way, Taiwan's electronics industry was able to maintain its foothold in the labor-intensive segment of the value chain through firms like Foxconn while still ascending the value chain to lead in the capital-intensive segment through firms like TSMC.

Looking ahead, it seems that TSMC is poised to capitalize upon new technological and industry trends in electronics manufacturing. Its scale, technological leadership, capital resources, and adaptive business model have allowed TSMC to dig an economic moat to keep out competitors and stay above the fray of geopolitical tussles. Many analysts expected that TSMC would suffer massive losses when it lost its ability to manufacture Huawei-designed semiconductor chips due to the US sanction (Culpan, 2020). Instead, a combination of rising demand for computing and communication devices due to COVID-19 and a shortage of supply from struggling competitors has greatly increased its profitability—TSMC's 2020 full year profit rose 50% year-over-year (Wong, 2021). Instead of losing traction due to geopolitical events, TSMC's recently announced \$100 billion expansion is on the horizon (Yang & Jie, 2021).

The outlook for Foxconn appears more complex. Foxconn's aspiration to shift from decelerating mass-market products to the fast-growing and more advanced AI-driven products is well-placed. However, new AI-driven market segments are still too small and too technologically demanding to allow Foxconn to quickly replace revenue and profits from their current mass-market products (Hille, 2019b). The global venture fund, recently proposed by Foxconn founder Terry Gou

presumably to help propel Foxconn's transition, has also raised some eyebrows given the mounting problems facing Softbank's Vision Fund, which Gou is trying to emulate (Ihara & Nakamura, 2020).

This implies that at least in the short run, Foxconn must still rely on megafactories making mass-market products. However, there are challenges in that space as well. As labor costs continue to rise in China and US-China technology decouples, Foxconn will be forced to diversify into other countries where it may not enjoy the cultural advantage and investment incentives that have enabled it to rapidly establish a profitable beachhead and beat out competitors as it did in China. Furthermore, these other countries may lack the scale, infrastructure, and efficient supplier networks that Foxconn enjoys in China, complicating logistics and fundamentally increasing the costs of operating in such environments (Burnson, 2016).

Further complicating the outlook for Foxconn, competition from mainland China is on the rise. In July 2020, Luxshare, an internationally little known Chinese electronics manufacturer, spent US\$500 million to acquire two China-based iPhone factories from Taiwanese iPhone manufacturer Wistron—the smallest of the trio of Taiwanese iPhone manufacturers, the other two being Foxconn and Pegatron. Given that the acquisition took place with Apple CEO Tim Cook's blessing, it is clear that Luxshare will become the first Chinese-owned firm to assemble iPhones (Li & Cheng, 2020a). Luxshare has also won orders from global giants such as Microsoft, Google, Amazon, HP, and Dell. While Luxshare made only 5% of Foxconn's revenues in 2020, some analysts believe that the newcomer could capture up to 30% of global iPhone production within the next 5 years (Lee & Horwitz, 2020). Furthermore, amidst trade tension with the United States, Luxshare is an ideal candidate for Chinese government support in nurturing local tech firms that are globally competitive. In early 2021, Luxshare's market capitalization rose to approximately US\$38 billion, only around US\$20 billion shy of Foxconn's US\$59 billion. In fact, this amazingly nimble Chinese copycat has earned the accolade as the "little Foxconn" (Li & Cheng, 2020a). To Foxconn, this must be flattering and threatening at the same time. At Terry Gou's direction, a task force was reportedly established in Foxconn in late 2020 with a dedicated focus to fend off Luxshare (Lee & Horwitz, 2020).

Beyond the two focal firms of TSMC and Foxconn, Taiwanese firms have not only established themselves as key cogs in the entire span of the global electronics supply chain, but have also played a vital role in the propagation of electronics factories throughout the Asia-Pacific region though their investment in China as well as other Asia-Pacific countries, including Malaysia, Vietnam, Thailand, and Philippines. According to the Ministry of Economic Affairs of Taiwan, 29.6% of Taiwan's non-financial outward FDI flows in 2017 were in the electronics manufacturing/IT sector, and 61.4% of total outward FDI was directed to Asia-Pacific countries (Kuo & Kao, 2018). As a result of this investment, Taiwanese electronics firms have helped stick together a global production supply chain, a great portion of which resides in Asia.

The greatest challenges now facing Taiwanese electronics firms are pressure from geopolitical forces that may lead to the U.S.-China economic decoupling of

the United States. and the Chinese economies, the shifting tides of demand towards more advanced products, and a drastically changing China in its roles as an efficient production base, an eager consumer, and a relentless competitor. These challenges just as easily represent opportunities. Taiwanese firms are now pushed to explore production opportunities more broadly throughout the rest of the Asia-Pacific region, to better position themselves to capitalize upon the thriving demand from China while continue to serve the rest of the world, to expand technological leadership, and to fortify themselves for the looming competitive threat from China. The future of the Taiwanese electronics industry will ultimately depend on how these opportunities translate to reality.

Taiwanese electronics industry has distinguished itself by beating the odds. Few would have bet that an industry born on such a small island with little natural resources would survive in the global economy, much less thrive and lead in it. It has done this through clever play and an unrelenting, yet pragmatic will. No doubt its impact will continue to outsize the geography it calls home.

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Chapter 7

Cross-border Electronic Commerce: The Case of Sake Exports from Japan



Masahiro Ida, Terry Wu, and Kazumi Tada

7.1 Introduction

Electronic commerce has transformed the global business environment due to the widespread use of information and communication technology. The past decade has seen rapid growth in e-commerce in the global economy. Global e-commerce sales increased from US\$25.6 trillion in 2018 to US\$26.7 trillion in 2019 (UNCTAD, 2021). Today, electronic commerce is conducted worldwide without any restrictions on geographical locations or national boundaries. Companies can reach consumers worldwide instead of relying solely on local markets via electronic commerce. For their part, individual consumers today can easily search for and purchase products and services online from merchants in other countries. In essence, many online retail sales involve buyers and sellers operating outside their national borders. As more consumers switched to online shopping during the coronavirus pandemic, the trend to e-commerce accelerated worldwide. Cross-border e-commerce (CBEC) has emerged as a new shopping trend when consumers purchase products and services online globally. In 2019, CBEC transactions amounted to US\$440 billion worldwide (UNCTAD, 2021).

A review of the literature reveals that there are many studies on e-commerce analysis (Agarwal & Wu, 2015; Hortacsu et al., 2009; Standifird, 2001; Wymer &

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Regan, 2005). In contrast, there is very little academic research on CBEC. In the CBEC literature, existing studies focus on several themes: challenges (Gomez-Herrera et al., 2014), international trade (Yousefi, 2015), business models (Deng & Wang, 2016; Xue et al., 2016), credit evaluation (Tao & Zhang, 2016), and consumer behavior (Huang & Chang, 2019; Zhu et al., 2019). Gomez-Herrera et al. (2014) employed a gravity model to examine cross-border trade among 27 EU member countries. Based on preliminary data, Yousefi (2015) examined the impact of CBEC on international trade. Xue et al. (2016) analyzed the current development of CBEC in China. Deng and Wang (2016) investigated cross-border business-to-business (B2B) e-commerce and confirmed the existence of early-mover advantages in early stage of CBEC. Huang and Chang (2019) analyzed the factors that influence consumers' purchase intentions from foreign websites. Similarly, Zhu et al. (2019) used a three-stage model to evaluate the impact of product cognition on purchase intention in CBEC. More recently, Qi et al. (2020) applied the transaction cost theory to examine the motivations for selecting a CBEC entry mode to the Chinese market.

Sake has been historically a traditional alcoholic beverage in Japan for more than 300 years. This alcoholic beverage is linked to Japanese culture and identity. From a historical perspective, Francks (2009) noted that sake has achieved a unique status in Japanese society, long before the current capitalist era. As a way to describe the sake industry in Japan, Lee and Shin (2015) employed the storytelling methodology to explain how to market traditional Japanese sake. Despite the cultural uniqueness and historical relevance of sake in Japanese society, scant academic research exists on this industry. Hence, little is known about it inside or outside Japan.

The domestic consumption of sake declined by 37.5% from 1.6 million kiloliters in 1970 to 1 million kiloliters in 2000. In 2010s, the declining trend continued when domestic sake consumption dropped to less than 0.5 million kiloliters in 2019, which was roughly one-third of that of 1970 (see Fig. 7.1). The long and slow declining consumption of sake in Japan is caused by the shrinking population and changing drinking habits among the younger generation (Japan Times, 2019; Roy, 2021). In Japan, many Japanese, especially younger generations and women, no longer drink sake (Stegewerns, 2017). Recent trends indicate that millennials and women prefer to drink beer and non-alcoholic beverages over sake. As a result, Japan's sake industry is now facing an uncertain future. According to Japan's National Tax Agency (2020), the number of Japanese sake breweries has declined by 70% from approximately 4,000 in the 1970s to roughly 1,400 in 2018. Among the remaining breweries, 32.7% have suffered from operating deficits, with 20–40 companies declaring bankruptcy or going out of business each year (National Tax Agency, 2020). It should be noted that most Japanese sake breweries are predominantly small- and medium-sized enterprises (SMEs).

After producing its fermented-rice beverages for more than 300 years prior to the Edo era,¹ the Japanese sake industry is on the verge of further decline and possible extinction if nothing is done to revitalize it. Although sake consumption has declined

¹ In 1866, Japan ended the Edo era of the feudal system with the generals (Shogun) at the top and entered the Meiji period. Since then, Japan has become a modern nation.

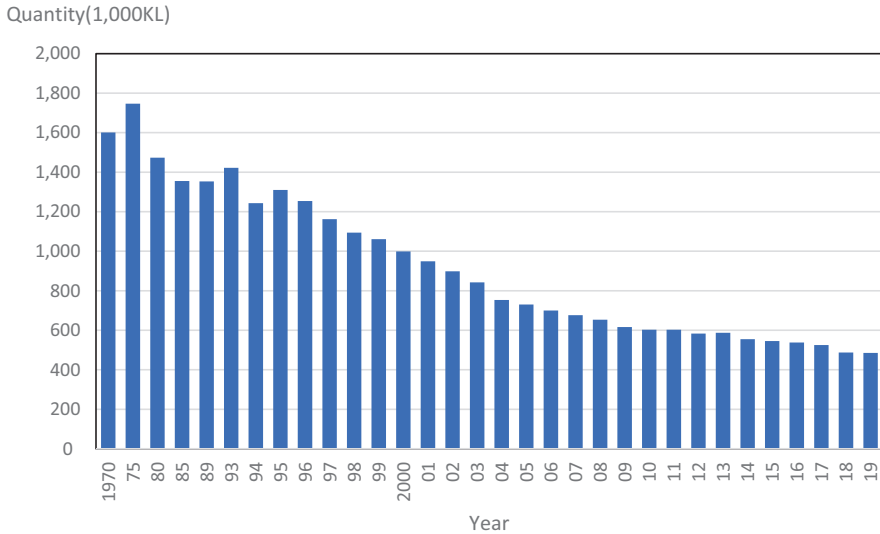


Fig. 7.1 Domestic consumption of sake. *Source:* Computed by the authors from the “Summary information of sake” March 2021 edition of the National Tax Agency

steadily in Japan, interest is growing rapidly in overseas markets (Sankei Shimbun, 2021). This global demand coupled with internet technology offers tremendous export opportunities for Japanese sake breweries, especially SMEs. In the sake industry, the traditional dominance of large multinational enterprises (MNEs) in global trade could be usurped by an international network in cyberspace (Bolwijn et al., 2018; Wymbs, 2000).

This chapter examines the export potential of Japanese sake for international markets via CBEC. This chapter is organized as follows. The next section discusses the best mode of entry for Japanese sake breweries considering entry into global markets. From a strategic perspective, exporting is the preferred choice by Japanese sake breweries for global expansion. It is followed by a discussion of CBEC as a new channel of distribution. Using cost simulations, an analysis of four e-commerce platforms (Amazon, eBay, Tmall Global, and Rakuten) is conducted to ascertain the optimal choice. The final section concludes with a summary and recommendations.

7.2 Exporting Sake to International Markets

For Japanese sake breweries, the internationalization process can be explained by the Uppsala model (Cavusgil, 1980; Johanson & Vahlne, 1977; Vahlne & Johanson, 2013, 2017). Specifically, internationalization takes place when firms experience a “learning process” by acquiring knowledge of new markets and consequently committing resources to these export markets (Cavusgil, 1980; Johanson & Vahlne,

1977; Vahlne & Johanson, 2013, 2017). Firms operate in domestic markets for many years from the outset and then learn more about foreign markets (Chetty & Campbell-Hunt, 2004; Knight & Cavusgil, 2004). Thus, the internationalization process occurs in stages as firms gradually progress to international business. A major feature of the process of internationalization strategy is an integration of both the process and commitment (Johanson & Vahlne, 1977; Vahlne & Johanson, 2013, 2017).

Many Japanese sake breweries have been in business for over 100 years. In particular, all of them started their business operations for the domestic market only. In the case of Japanese sake breweries, especially those that are SMEs, the learning process view can be used to explain the internationalization process when firms decide to enter foreign markets. In Japan, the consumption patterns of sake indicate a potential crisis in the Japanese sake industry. While large firms can afford to internationalize in incremental stages, SMEs do not have time to adopt a slow, stepwise approach as a matter of survival. For Japanese sake SMEs, they need to change their strategies and explore international markets in order offset declining domestic demands.

The attractiveness of international markets is obvious for the Japanese sake industry. The global market for sake is so much larger than the domestic market. It is difficult for struggling Japanese sake companies to survive if they rely solely on the declining consumer base in Japan. An obvious question is: what is the best mode of entry for Japanese sake breweries considering entry into global markets? Japanese sake companies can consider two different modes to enter foreign markets: foreign direct investment (FDI) or exporting.

FDI occurs when Japanese breweries set up production facilities to produce sake in foreign countries. Firms normally undertake FDI when they face significant transportation costs and trade barriers. However, there are limitations of FDI in the case of sake production. Most Japanese breweries are unable to produce high-quality sake in foreign countries due to the lack of management know-how and unsuitable quality of rice. It can be argued that the harmony of sake is maintained by a combination of the “taste of the land” and the three ingredients of rice, water, and the fermenting ingredient known as *koji* (Japan Sake and Shochu Makers Association, 2011). The quality of sake is determined by the production pattern and quality of rice, as well as environmental conditions such as temperature and sunlight. But to a large extent, Japanese sake quality is influenced by the “experience and intuition” of the chief executive (*toji*), which is a rare phenomenon in modern manufacturing (Japan Sake and Shochu Makers Association, 2011). Unlike the production of automobiles and home appliances, the subtle and rather ineffable qualities of good sake are unlikely to be produced at the same level in foreign mass facilities, even if a firm’s normally high-quality production is transferred to overseas operations via FDI. It is generally believed that Japanese sake must rely on Japan’s traditional method of production in order to maintain its high quality.

Exporting is preferred by Japanese sake breweries as a strategic choice for global expansion. There are clear advantages of exporting (e.g., Katsikeas, 1994; Navarro et al., 2010). First, when a sake company’s competitive advantage is based on

product quality, exporting ensures a high degree of control over sake quality. Second, exporting is favored by Japanese sake companies due to low costs and minimum risks in the global marketplace. Third, exporting allows Japanese sake companies to reduce production costs due to economies of scale and experience curve over time. From a strategic perspective, exporting offers great revenue and profit potential in foreign markets.

As Japanese cuisine or *washoku* is gaining increasing popularity in foreign countries, the demand for sake has also increased correspondingly (Ryall, 2021). For example, sake exports have increased significantly in terms of both volume and value since 2001 (Katsuda, 2018). Specifically, the export volume of sake increased from 7,052 kL in 2001 to 21,761 kL in 2020, an increase of more than three-fold over a 20-year period. As shown in Fig. 7.2, the export value of sake grew seven-fold in the past 20 years from nearly 3.2 billion yen in 2001 to over 24.1 billion yen in 2020. These data reveal that the export value of sake increased at a much faster rate than the export amount, indicating an increase in the proportion of high-priced sake exports. In addition to rapid growth in sake exports, the Japanese sake industry also benefits from an upward trend in export price. For example, the unit price of exports (= yen/L) increased from 453 yen per liter in 2001 to 1,109 yen per liter in 2020. It is clear that the sake industry could be revitalized if export growth can continue to offset declines in domestic consumption.

Recent advances in transportation technology have facilitated the growth of sake exports. In the past, it was slow and time-consuming to export sake from Japan to foreign countries by ships. As a result, there was a compromise on taste due to heat

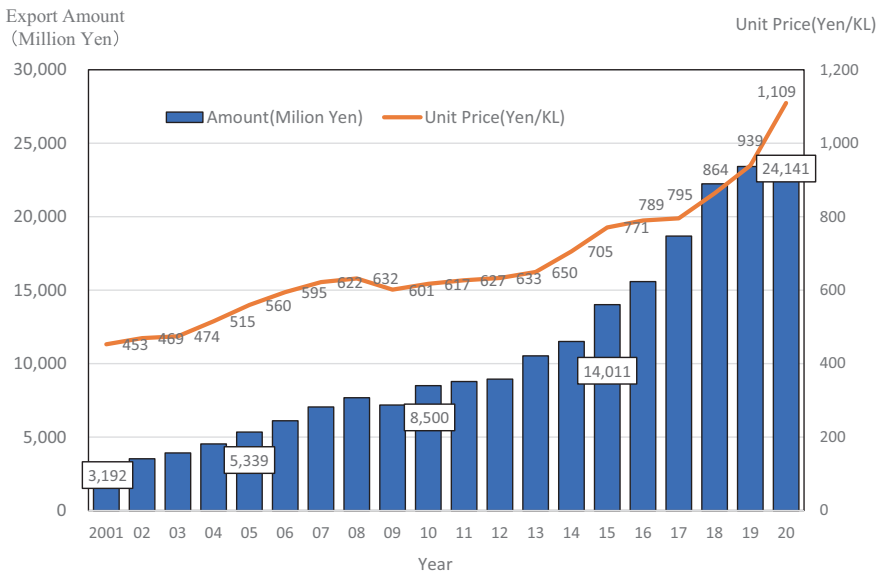


Fig. 7.2 Japanese exports of sake, 2001–2020. Sources: Data are derived from Japan’s Ministry of Finance, *Trade Statistics of Japan*

treatment to preserve the freshness of sake. Nowadays, however, it is possible to export premium sake to foreign countries after the introduction of instant cooling technology (Sankei Shimbun, 2021).

Since the most popular way for firms to engage in international markets is exporting (Leonidou & Katsikeas, 2010; Morgan et al., 2012), a number of Japanese sake breweries have adopted exporting as their internationalization strategy. When Japanese sake companies decide to export to foreign markets, the question arises as to which foreign markets to enter. Table 7.1 shows sake exports by country and region in 2020, illustrating that market conditions for the product differ greatly across countries. Given the growing popularity of Japanese food in many countries, Japanese sake was exported to 93 countries and regions (Ministry of Finance, 2021). The top 10 markets represent 91.3% of the total value and 86.8% of the total volume. The top five export markets are Hong Kong, China, the United States, Taiwan, and Singapore, accounting for 81.1% of the total value and 71.8% of the total volume. These data reveal that the largest export markets for sake are concentrated in Asia.

Of particular interest is the divergent unit price of sake in different markets. Sake's unit price (i.e., yen/L) is derived from the export value (yen) divided by the total quantity (L). To better characterize the export market for sake, the scatter-plot diagram in Fig. 7.3 shows the market characteristics of the top eight sake-importing countries and regions. The size of each market is represented by a circle. The unit

Table 7.1 Japanese sake exports by markets, 2020

Rank	Market	Amount (million yen)	Relative share	Cumulative share	Quantity (kl)	Relative share	Cumulative share	Unit Price (=Yen/L)
1	Hong Kong	6,178	25.6%	25.6%	2,629	12.1%	12.1%	2,350
2	China	5,792	24.0%	49.6%	4,772	21.9%	34.0%	1,214
3	United States	5,070	21.0%	70.6%	5,270	24.2%	58.2%	962
4	Taiwan	1,430	5.9%	76.5%	2,273	10.4%	68.7%	629
5	Singapore	1,113	4.6%	81.1%	688	3.2%	71.8%	1,619
6	Korea	979	4.1%	85.2%	1,535	7.1%	78.9%	638
7	Australia	491	2.0%	87.2%	525	2.4%	81.3%	935
8	Canada	429	1.8%	89.0%	549	2.5%	83.8%	782
9	Vietnam	279	1.2%	90.1%	342	1.6%	85.4%	816
10	Malaysia	278	1.2%	91.3%	309	1.4%	86.8%	899
11	Thailand	225	0.9%	92.2%	498	2.3%	89.1%	451
12	UK	215	0.9%	93.1%	220	1.0%	90.1%	976
13	France	213	0.9%	94.0%	222	1.0%	91.1%	958
14	Germany	207	0.9%	94.9%	402	1.8%	93.0%	515
	Others	1,242	5.1%	100.0%	1,527	7.0%	100.0%	814
	Total	24,141	100.0%		21,761	100.0%		1,109

Source: Calculated by the authors from Japan's Ministry of Finance, 2021, *Trade Statistics of Japan*

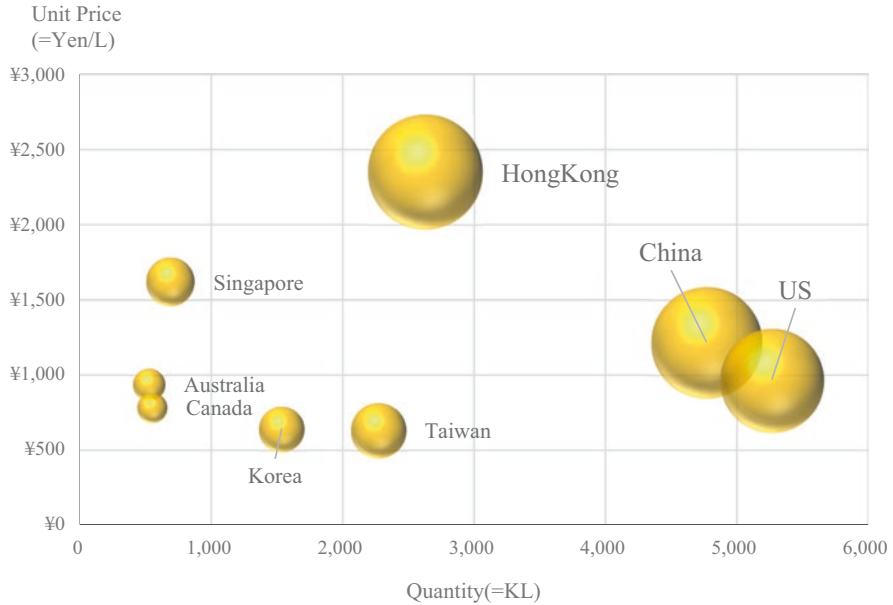


Fig. 7.3 Market characteristics by country/region, 2020. Sources: Based on data derived from Japan’s Ministry of Finance, *Trade Statistics of Japan*

price of sake was led by Hong Kong (2,350 yen), followed by Singapore (1,619 yen), and China (1,214 yen). It is evident that the unit price in these top three markets surpass the average unit price of 1,109 yen per liter (approximately US\$9.26 given US\$1 = 108 yen). In contrast, the next group of top markets is composed of the United States (962 yen), Taiwan (629 yen), and Korea (638 yen), where sake’s unit price is less than half of that in Hong Kong (2,350 yen). These data reveal that the market conditions differ across countries for sake exports. It is evident that Hong Kong is the choice destination for high-priced premium sake exports, while South Korea is the country for low-priced sake. In terms of growth potential, the United States is one of the largest markets for sake exports from Japan. Japanese sake breweries could rely on these characteristics to determine their choice destinations for exports, especially those SMEs with only a few varieties of sake in limited price ranges.

7.3 Choice of E-Commerce Platforms

Once a Japanese brewery decides to expand the customer base via exporting, the question arises as to the optimal distribution channels for international markets. Many Japanese companies rely on the traditional channel for selling sake in

international markets. In essence, Japanese sake companies use local intermediaries to distribute sake to local liquor stores, retail food stores, and Japanese restaurants in foreign countries.

As discussed earlier, Japanese sake breweries are typically family-run SMEs with a focus on established sales areas in Japan. They have neither the experience nor knowledge of operating in international markets. They are likely to face language barriers, local labelling requirements, and hurdles in finding reliable local distributors. But the internet has revolutionized the international business domain, thereby mitigating these constraints of language, requirements, and distribution. Hence, the emergence of the internet allows Japanese sake companies to develop new markets outside of Japan. In addition to the traditional channel of distribution, Japanese sake companies can use e-commerce to export sake to other countries (Lu & Liu, 2015).

The Japanese Ministry of Economy, Trade and Industry (METI) has administered an annual survey on e-commerce since 2010 with a focus on three major countries: Japan, the United States, and China (METI, 2018; , 2019). Furthermore, user surveys of their own shopping websites have been conducted by eBay in the United States (PayPal, 2018) and by Alibaba in China (Alibaba-Research, 2016, 2019). Both survey results indicate that CBEC is expected to grow at a much faster rate than the other electronic commerce growth rates, with a projected annual growth rate of more than 20%. For Japanese SMEs, CBEC offers new business opportunities even if a firm seems to lack sufficient financial and human resources for international expansion.

Japanese sake companies use two e-commerce business models: custom-built store portals and e-commerce platforms. Custom-built store portals are those stores that sell sake via their own online shopping websites. For example, a Japanese sake company is able to create an attractive website in foreign languages with livestreaming or a product-related customer video. The distinct advantage is that sake is sold directly to foreign customers without going through an intermediary in foreign countries. There are of course some logistical challenges facing Japanese companies that export sake to overseas through its own websites. First, most Japanese sake brands are not well-known outside of Japan. There is a need to enhance brand recognition for foreign consumers on their company e-commerce portals. Second, Japanese sake companies need to focus on several marketing issues such as the target market, product type, and pricing strategy for marketing on their stand-alone websites. Third, Japanese sake companies should acquire adequate resources to enable smooth and efficient operations in promoting sake. Therefore, the drawback is that a custom-built store portal is the most expensive website type because of high costs associated with customized web designs, software development, and ongoing costs of processing orders. This option is used mostly by large e-commerce vendors with a high volume of business in international markets.

As mentioned before, most Japanese sake breweries are SMEs with limited financial and human resources to engage in international business. Many Japanese SMEs are unable to set up their own company websites in foreign languages in order to directly sell sake for international markets. For Japanese SMEs considering

e-commerce for international markets, they can use e-commerce platforms which provide standard web store templates and technological solutions to numerous sellers (Wang et al., 2016). The e-commerce platform option works well for Japanese SMEs at a minimal cost because they normally have a limited product line.

While Japanese SMEs could rely on well-known e-commerce platforms, they may also use domestic online shops (e.g., Rakuten) with contents in foreign languages. In 2019, online cross-border shoppers with parcel delivery have used Amazon (25%), Alibaba (20%), and eBay (14%), accounting for 59% of the total CBEC transactions (International Post Corporation, 2020).

Many companies begin their global expansion by adopting e-commerce platforms because of the low entry barriers to newcomers (Qi et al., 2020). Japanese sake companies are of no exception. Cross-border e-commerce can be conducted via e-commerce platforms that are accessible to sake customers outside of Japan. Cost is a major consideration in selecting a particular e-commerce platform. Companies are required to pay for various fees for using an e-commerce platform. In most cases, there is a subscription fee to begin marketing in an e-commerce portal, which normally also charges a transaction fee or commission from the product company when an online transaction is successfully completed. These subscription fees and sales commissions could be a fixed amount or a variable fee, or a combination of both, depending on the e-commerce platforms.

Deducing the cost for an e-commerce platform is fairly complex, depending on the chosen platform and selected options. In most cases, Japanese sake companies need to pay for a monthly subscription fee, plus some transaction fees. Table 7.2 compares the operating fees of three major foreign e-commerce platforms: Amazon, eBay, and Tmall Global (hereinafter Tmall), with Rakuten which is Japan's top online shop. We have chosen Tmall Global in our analysis because it is Alibaba Group's CBEC platform. As illustrated in Table 7.2, Amazon charges a fixed subscription fee of US\$39.90 per month plus commission, whereas Tmall charges US\$417–US\$833 per month, sales commission of 2%–4%, Alipay fee of 1%, plus a security deposit of US\$25,000 (Marketing to China, 2019). In comparison, the operating fees of eBay and Rakuten fall somewhere in between Amazon and Tmall.

Based on the data in Table 7.2, simulations were conducted for these four e-commerce platforms with two different scenarios. In scenario 1, the platform costs are crucial in choosing an online shopping website, especially for a small sake company. Consider a small sake company which plans to market sake via Amazon. If sales are 100,000 yen per month (= unit price 1000 yen \times 100), then the company's total cost for using Amazon is estimated to be 25,239–34,239 yen. This amount is derived from a subscription fee of US\$39.90 per month + sales commission of 6,000–15,000 yen + a contract fee of $\$1.35 \times 100$ (based on an exchange rate of US\$1 = 110 yen). The total platform cost of using Amazon would be approximately 25–34% of the company sales. Should the company decide to use eBay, then the total cost would be 12,059–49,740 yen, representing 12.1–49.7% of sales.

Given the steep security deposit for using Tmall, along with fees of \$417–833 per month, 2–4% sales commission, plus a settlement fee of 1% based on sales, a small sake company will be unable to pay a total cost of 48,870–96,630 yen if the

Table 7.2 E-commerce platform operating fees, 2019

EC mall	Country	Monthly (fixed amount)	Sales commission/sales	Others
Amazon	United States	\$39.9	6–15%	Contract fee \$ 1.35 for each item
eBay	United States	\$26.9–324	4–9%	Transaction fee of \$ 0.10/item, PayPal fee of 4%. The transaction may be suspended if the frequency of trading is low.
Tmall	China	\$417–833	2–4%	Security deposit of \$ 25,000, Alipay fee of 1% for companies with own brands outside of China.
Rakuten	Japan→Overseas	Zero	Zero	Service fee of 4% only. However, additional branch registration fees, based on sales amount, are required separately in Japan.

Sources: Based on information derived from company announcements

monthly sales amount is only 100,000 yen. The total cost of Tmall would be approximately 48.9%–96.6% of the company sales. Tmall requires a deposit of US\$25,000 at the outset, exerting a heavy financial burden on small sake breweries.²

In comparison, Rakuten charges only a service fee of 4% (4,000 yen), plus an additional fee of 19,500 yen in advance of store opening, making the total cost 23,500 yen (23.5% of the sales amount). If the monthly sales are 100,000 yen, the marketing manager of a small sake brewery is likely to choose Rakuten first, then eBay, Amazon, and finally Tmall based on e-commerce platform costs.

Scenario 2 assumes that monthly sake sales reach 1 million yen (unit price 1,000 yen × 1,000). Utilizing the same methodology, it is estimated that the total platform cost of using Amazon would be 212,889–302,889 yen; eBay would be 93,959–176,640 yen; Tmall would be 345,870–591,630 yen; and,³ the cost for Rakuten would be around 59,500 yen. With this higher level of sales, the cost difference among the four online retailers is expected to decrease to around 6–59%. Rakuten and eBay are now close to each other at a low level in terms of total platform costs, whereas the cost for Tmall and Amazon are close at a high level.

The simulation results suggest that the ratio of online shop operating fees to sales for CBEC is influenced by the sales volume and price. As sake sales amount increases, the cost ratio is expected to decrease. Small sake firms are likely to select Rakuten for marketing sake online to overseas customers as a startup at the beginning of CBEC. It is likely that these firms will switch to eBay, Amazon, or Tmall if the sales amount is expected to increase substantially.

²There is another complicated factor in adopting Tmall Global. Japanese SMEs should take the exchange rate fluctuations into consideration due to changes in Chinese legislations and currency choices. It is difficult for small Japanese sake breweries to absorb the financial burden caused by these fluctuations.

³Our cost comparison is based on platform operating fees each year.

A key question is whether the choice of an online store may change over time. Simulation results show the operating fee structures for these four online retailers in Year 1 and Year 2 (Figs. 7.4 and 7.5, respectively). In both figures, the vertical axis represents store operating costs, whereas the horizontal axis denotes the sales amount. At the initial stage of entry, for example, a Japanese sake company may enter a foreign market with small online sales (e.g., 1 million to 5 million yen). In this case, a Japanese SME may choose Rakuten based on the operating fees. However, Rakuten is less well-known in the global marketplace than the other three online shops. Hence, Japanese sake breweries with a monthly sales amount of 1 million to 7 million yen may switch from Rakuten to other online shops.

In the global market, Rakuten is a clear choice for a small operator given its consistently low transaction costs for exports of sake in small quantity. In the United States, Amazon and eBay dominate the e-commerce market, representing 40.4% and 4.3%, respectively (eMarketer, 2021). In terms of operating costs, Amazon and eBay are more or less the same, but slightly more expensive than Rakuten. However, because both Amazon and eBay are more popular than Rakuten in the global marketplace, a small sake company might choose either Amazon or eBay if their sales are expected to increase, particularly in the United States and European markets. Given the operating fees charged by online shops, increased exports of sake will result in a wider choice of online retailers available for small Japanese sake breweries. The simulation results are summarized in Table 7.3.

Although Tmall is the largest online retailer in China, accounting for 52.5% of the country’s e-commerce market (METI, 2019), the simulation results indicate that Tmall is disadvantageous for Japanese SMEs in the first year due to its huge fixed

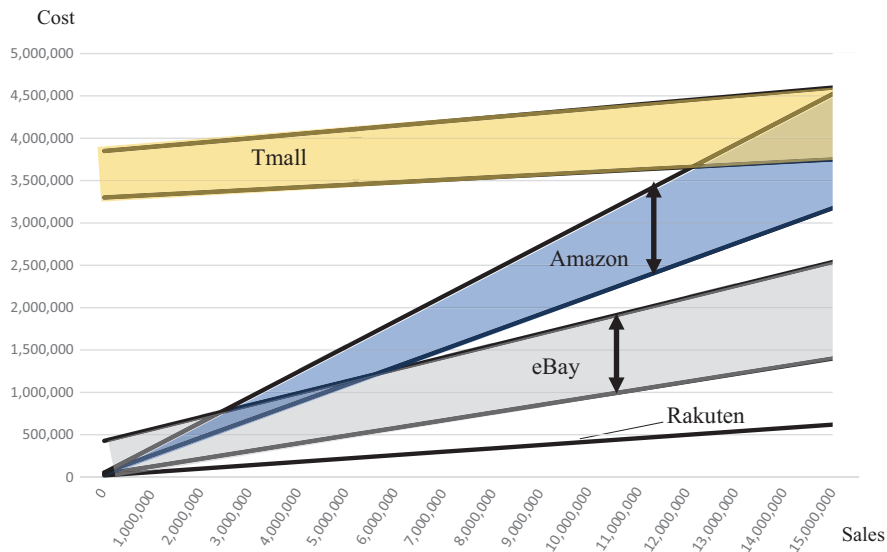


Fig. 7.4 First-year operating fees in yen (Transaction Cost). Sources: Computed by the authors based on company information

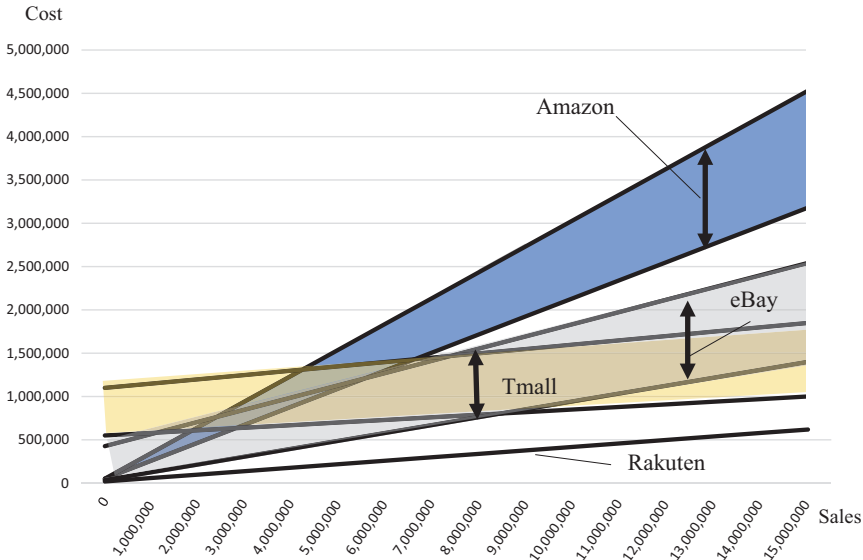


Fig. 7.5 Operating fees (transaction cost) in yen after second year. *Sources:* Computed by the authors based on company information

Table 7.3 Summary of simulation results

Year	Amazon	eBay	Tmall	Rakuten
First year	1. More expensive than Rakuten.		1. Disadvantageous due to its huge fixed costs.	1. Advantageous due to consistently low transaction costs for exports of sake in a small quantity.
After second year	2. More popular than Rakuten. 3. Small sake company might choose to use Amazon or eBay if they expect sales to increase, particularly in the U.S. and European markets.		2. Clearly advantageous in the Chinese market because it does not have an additional cost in second and subsequent years.	2. Disadvantageous due to less well-known brand recognitions in foreign markets.

Sources: Compiled by the authors based on simulation results from Figs. 7.4 and 7.5

costs. But it becomes a viable option after the second year. From the second year onwards, Tmall is clearly favorable in the Chinese market because it does not need any more upfront costs. It should be noted that Rakuten has little or no presence in China as reflected by the online retail market platform transaction share (Statista, 2021). Like Rakuten, eBay has failed to make inroads in the Chinese market. It appears that Amazon is the only alternative to Tmall in the Chinese market at this point. Hence, a small Japanese sake company might choose Amazon if the sales amount is relatively small.

It must be recognized that the choice of a less expensive and less popular platform may result in lower sales. This is certainly true in the Chinese market. Given Tmall's dominance and reputation in the e-commerce market in China, this Chinese online shop is able to charge higher subscription and commission fees than its competitors. For Japanese sake breweries, the success of overseas sales depends on the choice of online retailers. They may choose a popular online shop on the basis of its market dominance instead of platform operating costs. While the current analysis is limited to e-commerce platform costs, the simulation results presented here can still provide useful guidance to Japanese sake exporters in entering the global e-commerce market.

7.4 Conclusions

Despite of its production history of more than 300 years, the Japanese sake industry is facing a crisis of widespread bankruptcies due to declining domestic consumption. The exporting sector appears to be a solution to this crisis. There are encouraging signs for the industry given the rapid growth in global demand for sake. The internet makes it easier for Japanese breweries to export sake via CBEC, which is an effective channel of distribution.

This study is a first study on CBEC using sake exports as a case study. While the domestic demand for sake has declined in Japan, the international market for sake is growing rapidly, especially in the Asia-Pacific region (South China Morning Post, 2021). When using foreign online shops, there are issues such as the logistics of delivery as well as maintaining sufficient stock. Hence, a right online retailer is of critical importance to the success of a Japanese sake brewery. In this study, e-commerce platform costs are compared using simulations to predict the choice of online retailers. The choice is dependent on the sales amount as well as the time horizon. Yet with increasing digitalization, small- and medium-sized sake breweries can partner with domestic and foreign online shops to export sake to other countries via CBEC. In the digital age, consumers are no longer confined to their geographical locations when they are able to access products and services through online apps across national borders (Banalieva & Dhanaraj, 2019).

This study contributes to the academic literature in several areas. First, it combines CBEC and sake, which are considered as two separate research fields. Based on online retailers' operating fees, small- and medium-sized Japanese breweries can develop strategies to export sake to consumers in other countries via CBEC. Second, this study contributes to the international business literature, which has focused mostly on the manufacturing and service sectors. This study focuses on the exports of sake which is regarded as not only an alcoholic beverage, but also as a unique cultural product in Japan. Third, this study improves our understanding of the internationalization process using Japanese sake industry as a case study.

This study has several limitations which provide possible directions for future research. First, our study is based on e-commerce platform costs as the sole determinant of platform choice to avoid complex analysis. This approach raises

questions of appropriate inferences being drawn from the simulation results. In deciding the choice of a particular e-commerce platform, a Japanese sake brewery may take other financial factors into account. In addition to the e-commerce costs associated with CBEC, a Japanese sake brewery may face other cost-related issues such as language translation, product promotion, customer complaints, and foreign delivery.⁴ The simulation results in this study represent only a first step in studying CBEC in the context of sake exports. A more comprehensive approach to cost analysis is needed to fully account for the various costs associated with CBEC in future research.

Second, it must be acknowledged that our study on CBEC only uses sake exports as our unit of analysis. Hence, our results may not be applicable to other consumer products that are more expensive and profitable. For example, it is likely that there are significant differences between sake exports and luxury product exports. Future research should focus on other consumer products and evaluate their influence on our e-commerce platform model. Additional research could focus on the substitution of exports and foreign direct investment in the future.

Third, this study does not take the market share of various e-commerce platforms into account. In reality, most Japanese sake companies may include the market share of foreign online retailers in their choice decisions. It is possible that a Japanese sake company may choose a popular online platform with a high market share in an overseas market in spite of high operating costs. In the future, the decision choice sets could be expanded to incorporate the market share into the simulation analysis.

Finally, this study explores the potential of CBEC in exporting sake to international markets. The study does not capture the impact of the global pandemic on CBEC. Hence, our results do not reflect the recent trends in CBEC during the COVID-19 crisis. There is no question that the global pandemic has forever changed CBEC. It would be interesting to compare e-commerce platform decisions of Japanese sake breweries in the pre-pandemic period and the post-pandemic period. It is hoped that this study can spark further research in this area.

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⁴Some online shops have already deployed additional resources to address these issues.

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Chapter 8

Emerging Dragons: How Do Chinese Companies Expand Overseas?



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8.1 Introduction

The global presence of Chinese companies has strengthened since China initiated the “Going Global” strategy in 1999, joined the World Trade Organization (WTO) in 2001 (Agarwal & Wu, 2004), and began to promote the “Belt and Road Initiative” (BRI) in 2013. The overseas expansion of Chinese companies has become a noteworthy dimension to China’s integration into the global economy. The rapid internationalization of such companies has also elicited high levels of interest among managers and academics (Hoskisson et al., 2000; Child & Rodrigues, 2005; Alon et al., 2018). The term “dragon” and “dragon multinationals” are often used as metaphors for internationalizing Chinese companies because of their rapid growth and great potential in the future as latecomers from an emerging economy in the Asia-Pacific region (Tran et al., 2013; Mathews, 2017). For instance, Haier Group, a home appliance company that has gained global leadership, is described as a “hidden dragon” (Zeng & Williamson, 2003). Similarly, low-cost companies in cluster markets that have achieved global dominance, such as the Yiwu Commodity Market are referred to as “manufacturing dragons” or “exporting dragons” (Zeng &

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Williamson, 2007); There has also been a dramatic rise in high-tech “silicon dragons” (Fannin, 2008), such as Baidu, Tencent, and Alibaba, the Internet giants of China. Therefore, we define “emerging dragons” as multinational Chinese companies and brands that have had a strong growth in sales and significant market share in overseas markets over the past two decades (Zeng & Williamson, 2003).

The past two decades has witnessed the acceleration of Chinese companies into the global economy, which is mainly reflected in three main sets of statistics. First, China’s outward foreign direct investment (OFDI) has grown substantially. China was the 26th largest global investor in 2002, but became the second largest in 2019, accounting for more than 10% of the world’s total OFDI since 2016 (see Fig. 8.1). Second, Chinese companies are actively engaged in foreign trademark registration. According to CompuMark™’s foreign trademark registers (2018), the number of trademark applications by Chinese companies has been on the rise, from 32,059 applications in 2010 to nearly 120,000 in 2017. Third, the number of Chinese companies on the Fortune Global 500 list has surged. China had 124 companies on the Global 500 list in 2019 compared to only 12 in 2001 (Fortune Global 500, n.d.; ChinaPower, n.d.) (see Fig. 8.2).

There are currently no set blueprints for understanding the strategic expansion of Chinese companies into global markets. Compared to their established global counterparts, China’s emerging dragons are poorly understood. Systematic research has not kept pace with their rapid global expansion. Doubts about the strength and global influence of Chinese companies are often the dominant narrative. The first

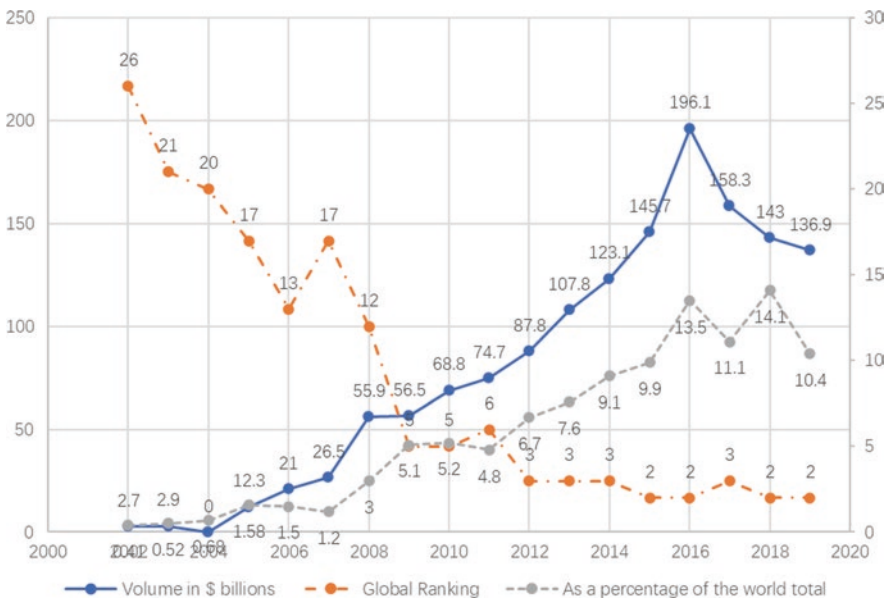


Fig. 8.1 An overview of China’s OFDI from 2002 to 2019 (Source: MOFCOM, China n.d.; UNCTAD, UN n.d.)

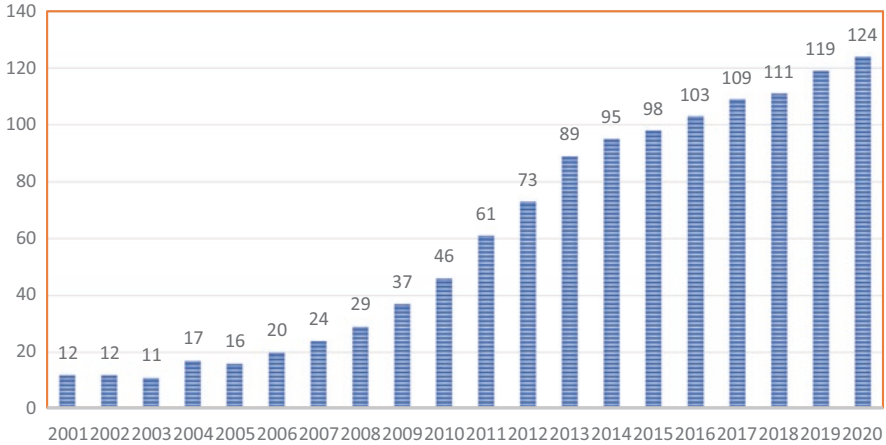


Fig. 8.2 The number of Chinese companies listed on the Fortune Global 500 from 2001 to 2020 (Source: Fortune Global 500 n.d.; ChinaPower)

argument of this narrative is that the top Chinese companies on the annual Global 500 list are mostly state-owned enterprises (SOEs) in the banking and energy sectors, and are therefore not an accurate reflection of the real global footprint of Chinese firms. Another argument is that most Chinese companies are low-cost manufacturing exporters propped up by a massive domestic population, export subsidies, and the unique institutional environments they operate in (Elango & Pattnaik, 2007). There is also a widespread view that Chinese companies cannot innovate (Abrami et al., 2014; Peng et al., 2017) even though China was ranked as the 14th most innovative out of 129 economies in the 2019 Global Innovation Index (GII) rankings. Additionally, China was second only to the United States in the number of science and technology clusters (GII, 2019). Evidently, Chinese firms are not what they are traditionally perceived to be.

Obviously, the phenomenon that is the rapid global rise of Chinese companies is still not well understood. More studies are needed to examine the differences in the motivations, expansion paths, capabilities, and competitive advantages of Chinese companies compared to their established counterparts (Guillén & Garcia-Canal, 2009; Ramamurti, 2009; Bianchi, 2014). This chapter aims to examine the distinctive expansion patterns of Chinese companies and the key features associated with the expansion process based on the analysis of 35 Chinese companies. We will further analyze the uncertainties and challenges that Chinese companies are likely to encounter by applying the *Political, Economic, Social, and Technological* (PEST) perspective. This will contribute to an enhanced understanding of the competitive strategies of Chinese firms as they continue to deepen their global presence, especially in the context of geopolitical tensions between China and the United States, as well as the impact of the COVID-19 pandemic.

8.2 Factors Underlying the Myth of Chinese Companies' Growth

Skepticism has always surrounded the overseas expansion of Chinese firms. The commonly held myth (Luo et al., 2012) is that Chinese companies are export-led and manufacturing-driven. However, China is transforming into a consumer-based economy. Exports, which accounted for 35.4% of China's GDP in 2006, contributed only 17.4% of the country's GDP in 2019. According to China's National Bureau of Statistics, the contribution of China's final consumption expenditure to economic growth rose from 45.3% in 2007 to 76.2% in 2018 (Xinhua News, 2019).

There are three reasons why the myth regarding Chinese economic expansion persists. First, many Chinese firms are assumed to have the advantage of favorable policies and financial subsidies due to their ties to the government. This assumption comes from a poor understanding of the political, institutional, and cultural environment that Chinese companies are cultivated and established in when compared to Fortune 500 corporations that are based in the West. It should also be noted that some private Chinese companies are minority investors in state-owned Chinese enterprises. For example, Alibaba and Tencent, two technological giants that have disrupted the global Internet finance market through their innovative mobile payment applications Alipay and WeChat, have both invested in China Unicom, the telecommunications company owned by the Chinese government (Lee, 2017). Such confusion is frustrating to western firms that are trying to understand the ownership advantages of Chinese firms (Bhaumik et al., 2015).

Second, many Chinese firms lack transparency due to poor disclosure of their financial and shareholding information. The best examples of this are Chinese technology start-ups. With only a few exceptions, most Chinese tech firms are either listed domestically or choose not to go public, partly to avoid the stricter and more detailed disclosure requirements imposed by the United States' Securities and Exchange Commission (SEC) that a listing on the NYSE and NASDAQ would entail. This pattern is likely to remain as the China Securities Regulatory Commission has announced a pilot program to help promising start-ups get listed and allow leading tech firms that have gone public abroad to re-issue shares in Mainland China (Xie, 2020). Due to the uncertainties of this program, it is difficult to assess the likely impacts of such a change for now.

Third, by 2000, not a single Chinese brand was ranked among the world's top 75 brands (Interbrand, 2000; Ramamurti & Williamson, 2019). However, Chinese firms have since made major strides in this regard. In 2014, Huawei was ranked among the Top 100 Best Global Brands, becoming the first Chinese entrant (Interbrand, 2014). In BrandZ™'s, 2019 list of the Top 100 Most Valuable Global Brands, Chinese brands made up 8 of the 10 most valuable Asian brands and took 15 placements in the overall list (BrandZ™, 2019). According to data from the World Intellectual Property Organization (WIPO), utility patent applications from China numbered more than 1.5 million and accounted for 46.4% of global totals in 2018 (WIPO, 2019). However, it takes time for such a rapid transformation to filter

through into mainstream thought and subsequently alter the image of Chinese companies as low-quality exporters.

While these perceptions on the overseas expansions of Chinese firms are not entirely unjustified, a more informative and balanced examination of how “emerging dragons” globally generate competitive advantages is both necessary and imperative. The analysis in this chapter is based on an in-depth investigation of 25 firms from 80 Harvard Business Review Cases covering the overseas expansion of Chinese companies since the 2000s, as well as 10 overseas Chinese companies listed in the Shanghai and Shenzhen Exchange Markets, thus involving a total of 35 companies. The companies included in our analysis draw from a diverse range of sectors, including home electronics, traditional herbal medicines, and dairy products.

8.3 Five Overseas Expansion Types of Chinese Companies

When a company decides to enter the global market, it is because they believe such a move will be advantageous for them (Porter, 2004). In international business (IB) literature, the Uppsala model (Johanson & Vahlne, 1977; Huang & Jarinto, 2015) and eclectic paradigm (Dunning, 1988, 2006) are often used as frameworks for explaining the internationalization process of firms (Wagner, 2020). These IB models are often reflective of the international expansion patterns of multinational firms (MNEs) from developed countries, whose successful internationalization is driven by the three advantages of the Ownership, Location, and Internationalization framework (OLI). However, no single existing IB theory appears to fully explain the internationalization strategy of Chinese companies because Chinese companies seem committed to more holistic strategic considerations regarding their entry mode and post-entry growth. Our in-depth study of 35 international Chinese firms is a starting attempt to understand their unique set of options and choices in order to build the foundation for a more deductive approach to analyzing “emerging dragons.”

Five international expansion patterns can be observed from our analysis of the 35 firms. These are: market dominators, export clusters, technology innovators, cultural carriers, and overseas financial investment and supply chain integrators. Table 8.1 outlines the characteristics of these five patterns in terms of their expansion motives, entry modes, market strategy, R&D status, core competence, and competitiveness.

8.3.1 *Market Dominators*

Market dominators are firms that took the plunge into overseas markets, starting as industry leaders in the domestic market before becoming niche players in cross-border markets and then global brand builders based on developing innovative

Table 8.1 Five patterns of overseas expansion

	Type				
	Type 1	Type 2	Type 3	Type 4	Type 5
Factors	Market dominators	Export clusters	Technology innovators	Culture carriers	Overseas financial investment and supply chain integrators
Expansion motives	Building global brand	Increasing export/exportation capacity	Becoming global technology leaders	Carrying Chinese cultural heritage forward	Combining overseas assets with Chinese markets
Entry path	Targeting niche markets with a holistic approach including exporting, joint ventures, subsidiaries, etc.	Exporting and original equipment manufacturer (OEM)	Leading industry innovation	Selling traditional Chinese products in the overseas market	Acquiring new business through cross-border mergers and acquisitions
Core competence	Customer-centric innovation and cost-advantage strategy	Cost-effective manufacturing capacity	Patented technology and Talents of Chinese returnees	Cultural-based natural Resources	Financing capitalization
Market strategy	Building global brand awareness	Developing as a cluster brand	Establishing market leadership	Networking overseas Chinese and seeking product agents	Acquiring complementary assets and resources
R&D status	High investment in R&D Collaborative research for Cutting-edge technology	Updating market knowledge about trends and fashions	R&D alliances with universities or research institutes	Focused R&D on resource optimization	Multi-dimensional cooperation with top R&D companies and international talents
Unique capability	Market sensing capability	Networking capability	Innovation capability	Resource-based capability	Acquisition capability
Global competitiveness	Industry leadership	Cluster networking	Government incentives and grants	Uniqueness of Chinese cultural products	Large population of Chinese customers
Pest	Economical, technological, socio-cultural	Socio-cultural, economical	Political, technological	Socio-cultural	Political, economical, technological

<p>Case companies & brands</p>	<ol style="list-style-type: none"> 1. Galanz 2. Gree Electric Appliances 3. Haier Group 4. Hisense 5. Huawei 6. Midea 7. Pearl River Piano 	<ol style="list-style-type: none"> 1. Fuyao Auto Glass 2. Langsha Group 3. Semir Group 4. Wenzhou AoKang 5. Wenzhou Red Dragonfly 6. Yiwu Commodity City 	<ol style="list-style-type: none"> 1. Alibaba 2. Ant Financial 3. Baidu 4. Lenovo 5. Luxshare Precision 6. Sunway eCommunication 7. Tencent 8. Xiaomi 	<ol style="list-style-type: none"> 1. Heborist 2. Jia Duobao 3. Jiangzhong Hou Gu (mushroom Biscuits) 4. Shanghai Tang 5. Shangxia 6. Tianjin Tasly Group 7. Tong Ren Tang 8. Yunnan Baiyao 	<ol style="list-style-type: none"> 1. Anbang insurance 2. Beimgate 3. Bright Dairy 4. Fosun Group 5. Geely 6. HNA Group
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customer-centric technology in the global arena. The first cohort of market dominators went global during the late 1990s when China was encouraging domestic companies to engage in internationalization. These companies initially focused on product-based niche segments to build and consolidate core competitiveness in international markets via a progressive portfolio of entry modes, such as OEM, exporting, joint ventures, subsidiaries, and M&A, with the goal of becoming well-established global brands. Global leaders, such as Haier Group, Gree Electric Appliances, Galanz, Hisense, Midea, and Pearl River Piano, are good examples of Chinese companies in this category. Due to its quick action after emerging on the global market, Haier Group has been the world's leading producer of refrigerators since 2008. Its global market share has continued to rise, from a share of 10.4% in 2008 to 21.4% in 2018 (Cheaa.com, 2018). In Box 8.1, we provided a mini-case to describe the key competitive advantages of Haier's overseas expansion. Likewise, the goal of Gree Electric Appliances' global expansion is to build its own international brand. Having ranked as the global market leader for air conditioners since 2005, Gree's global market share of residential air conditioners reached 20.6% in 2018 (Gree Website, n.d.).

To achieve their global ambitions, market dominators are characterized by the high priority they give to R&D and customer-oriented disruptive innovation. In the United States niche market, Haier Group pioneered compact refrigerators for college students and inexpensive wine cellars for wine lovers, competing against Whirlpool, Electrolux, Bosch-Siemens, and LG in order to gain market leadership. Its niche and innovative products, known as "the world's first," are in constant launch, such as a cordless "no-tail" TV, a household shoe-washing machine for footwear care and protection, and an "outer-drum-free" zero-cleaning washing machine. These diverse innovations are achievable because of Haier's mantra that R&D resources must go wherever there are customers with needs to be satisfied.

Founded in 1956, Pearl River Piano has attributed its success in global high-end markets to its early adoption of a "global perspective" (Music Trades, 2017; Kumar & Steenkamp, 2013a). Since 1987, the company has focused on inviting international experts to guide it in piano design, manufacturing, and quality control to enhance its technology. As the world's largest piano manufacturer with more than 30% global market share and the best-selling piano brand in more than 120 countries, Pearl River Piano often makes use of its accelerated R&D and state-of-the-art innovation (PianoBuyer, n.d.). For example, it created a set of high-end "Kayserburg" designs in less than 5 months. A similar set of designs would traditionally take years to complete at almost ten times the cost. Similarly, innovation-driven development has allowed Gree Electric Appliances to produce 24 globally leading air-conditioning technological innovations. Gree is also the sole supplier for the main air-conditioning units used in all the terminals and supporting services at Beijing's Daxing International Airport (Gree Website, 2018). Overall, customer-driven innovations help market dominators create competitive advantages by spotting an entirely new market opportunity or by serving a market segment that others have ignored.

Box 8.1 Haier Group: A Leading Market Dominator

Established in 1984, is a leading company in consumer electronics. Haier started its efforts to go global in 1989 by exporting niche products. As one of the earliest internationalized Chinese companies, its expansion has been centered on creating markets and responding to customers' needs. Customer-centered innovation featuring specially designed products is what helps Haier achieve its competitive advantages. Moreover, achieves its quick expansion and consolidation of overseas resources through major international acquisitions, such as the acquisition of Sanyo in Japan (2011), Fisher & Paykel in New Zealand (2012), and GE Appliances in the United States (2016). Importantly, Haier promotes the direct interaction among its global users, makers, and innovation resources. This strategy contributes to the construction and operation of the Haier Open Partnership Ecosystem (HOPE) on the global scale. Interactions among Haier's seven brands (namely, Casarte, Leader, Haier, AQUA, GE Appliances, Fisher & Paykel and CANDY) (Haier Website, [n.d.](#)), focus on customer needs, and competitive innovation are the driving forces for Haier Group's and sustainability.

8.3.2 *Export Clusters*

Export clusters take advantage of geographically concentrated and economically related sectors to achieve national and international export competitiveness through collective actions and network linkages, such as product producers, service providers, suppliers, and universities (Porter, 1990). Export clusters in China win global recognition by exporting mass commodities based on upgrading innovations and the co-location of specialized firms in export-processing zones, most of which are in the Pearl River Delta or the Yangtze River Delta. The Yangtze River Delta is the top cluster for China's advanced manufacturing industry, with 32% of the top 500 companies in China coming from this region (China Daily, 2019).

Generally, a cluster brand is recognized as a cluster that achieves a distinct reputation and position based on its identity and what it does most effectively (Andersson et al., 2013). A cluster that supports a cluster brand is structured in three layers, which consist of the cluster brand, corporate brands, and product brands. At the top of the cluster is the cluster brand, which is a collective brand representing an industry cluster (Tu, 2011). For instance, Semir Group, a Wenzhou-based Garment Co. Ltd. founded in 1996 in the Zhejiang Province, has contributed to the construction of the Wenzhou Apparel cluster with its casual wear for young people and the children's brand "Balabala" (McFarlan et al., 2012). Yueqing, a county-level city under the administration of Wenzhou, is the birthplace of Wenzhou-style garments and the largest production base for garments in the Zhejiang Province. Impressively, two-thirds of China's textile and apparel clusters are in the Zhejiang Province (Guan

et al., 2018). Clusters joining forces along the value chain are a catalyst for the rapid growth and international recognition of Chinese exporting companies. Successful export clusters are those with firms that are effective at building and managing a broad network of linkages both locally and trans-locally to access relevant knowledge and resources (Turkina et al., 2016). In Box 8.2, we described two leading Wenzhou Footwear Cluster Brands, AoKang and Red Dragonfly. They are competent in connecting the supplier cluster in Wenzhou with the customer and design cluster in Italy during their overseas expansion.

Clusters are also defined as “geographic concentrations of industries related by knowledge, skills, inputs, demand, and/or other linkages” (Delgado et al., 2016). The Yiwu China Commodities City is a cluster of more than 88,000 shops, stretching nearly 5 miles; it would take around 13 months to visit all the shops if a buyer were to stay in each shop for at least 3 min (Yiwugo.com n.d.). Christmas-related products in Yiwu, such as sleigh bells, Santa Claus costumes, plastic Christmas trees, and LED Christmas lights, account for about two-thirds of the world’s output for Christmas products. The manufacturing clusters of Yiwu have strong production capabilities, being able to respond quickly and exercise great flexibility when confronted with changes in demand. Everything in Yiwu is produced as a one-of-a-kind sample with each item being totally different.

Porter’s Diamond Model also sheds light on the interplay among four determinants, which are firm strategy and structure, factor conditions, demand conditions, and supporting industries. This interplay can answer the focal question of why companies from one country or region are able to sustain competitive advantages in a particular industry (Porter, 1990). Porter argues that only advanced factor conditions that one’s competitors do not possess will gradually lead to a competitive advantage for a company, while basic factors do not generate competitive advantages because any company can obtain them. Among the companies we study that are classified in this category, these advanced conditions are typically their unique innovation capabilities that come from being part of a network. Export clusters focus on increased innovation and network building. For example, Fuyao Auto Glass (established in 1987), the world’s top automotive glass supplier with 25% of the global market share, has been enhanced by its OEM ties with VW, Audi, Bentley, BMW, Chrysler, GM, Ford, Mercedes-Benz, BMW, Audi, GM, Toyota, and other car companies. Fuyao successively established production plants in close geographic proximity to all of VW’s major operation sites in China. Similarly, when Fuyao first expanded into the United States in 2014, it set up manufacturing plants in close geographic proximity to major US automotive manufacturers that Fuyao had previously supplied in China (Hertenstein et al., 2017). Also, in 2020, Fuyao spent US \$46 million to expand production and R&D at a plant in the United States (Automotive News, 2020), further committing to its existing business network ties and its innovation capabilities.

As described in Table 8.1, export clusters distinguish themselves and achieve competitive advantages through their unique networking capabilities. By gaining competitive advantages through reduced inventory and precision in design and production, it is apparent that sales networking and coordination enable export clusters

to produce and deliver products in a short production cycle without raising costs. Responsiveness to the market and cost-effectiveness are the most important strengths that export clusters possess.

Box 8.2 AoKang and Red Dragonfly: Wenzhou Footwear Cluster Brands

Wenzhou, a coastal port city located in southeast China, has been on the front-line of China's export success. In 2001, the Wenzhou footwear was officially named as "China's footwear capital." Wenzhou had more than 4300 shoe-making-related companies in 2019, accounting for one-eighth of all shoe production worldwide. Their shoes have been exported to more than 160 countries, led by brand names such as KangNai, AoKang, Red Dragonfly, and Spider King. AoKang Shoes Co. Ltd. and Red Dragonfly Footwear Co. Ltd. (set up in 1988 and 1995, respectively) are the two most successful cluster companies listed in the Shanghai Stock Exchange. When exporting overseas, these two companies took the lead in establishing European cluster networks, particularly in Italy. In 2003, AoKang became the cooperative partner of Geox, a leading Italian shoemaking company (China Daily, 2004). In 2008, AoKang formed a partnership with the Italian shoemaking company Valleverde. Red Dragonfly began to build products at a development center in Italy in 2007. Besides, outlets in different countries cluster shoemakers from Wenzhou and strengthen the cluster brand effect of Wenzhou footwear, thus increasing its popularity on a global scale.

8.3.3 Technology Innovators

Technology innovators are mainly young start-ups in the high-tech sector. The past decade has witnessed a boom of Chinese start-ups. According to a Credit Suisse report in 2018, China boasts the second largest number of start-ups worth over a billion dollars, or "unicorns" representing nearly one-third of the world's 326 unicorns (Singh, 2019). With a strong capacity for innovation, technology innovators are mainly concentrated in cities like Beijing, Shanghai, Hangzhou, and Shenzhen, focusing on advanced technologies, including artificial intelligence, self-driving cars, telecommunications, biotechnology, green energy, and robotics.

The rapid expansion of technology innovators lies in three decisive factors. First, their innovation and entrepreneurship are encouraged and supported at the national level. Since the launch of China's top-down national "entrepreneurship and mass innovation" initiative in 2014, technology innovators have had easy access to China's state investment and subsidiary funds (Phelps, 2018). Second, technology innovators invest in R&D and foster joint innovation with key universities, institutions, and laboratories at home and abroad. Third, technology innovators build

patented technology and innovation capabilities as their core competences. In terms of WIPO's Patent Cooperation Treaty (PCT) applications, China became the world's largest applicant, with 58,990 patents filed in 2019, followed by United States with 57,840 applications (WIPO, 2020).

Let's consider the Shenzhen-based Sunway Communication Co. Ltd. as an example of a technology innovator. Founded in 2006, the company is a listed high-tech company, focusing on mobile terminal antennae that can be applied to portable communications equipment such as mobile phones, laptops, and netbooks. As for the core technology on the antenna system, Sunway is committed to patented technology, with the application of 922 patents by the end of 2018. Its financial expenditure on core technology R&D increased from 17.2 million RMB (US\$ 2.4 million) in 2011 to 291.1 million RMB (US\$ 42.3 million) in 2018 (Sunway Annual Report, 2019). Globally, Sunway has established R&D and sales centers in Sweden, the United States, South Korea, and Japan. Nanjing University, Southeast University, and other important institutions have been Sunway's research partners. Not surprisingly, Sunway came in at 46th place on Forbes' list of the World's Most Innovative Growth Companies in 2017 (Forbes, 2017).

Technology innovators are highlighted by their entrepreneurial orientation and focus on innovation. They enter foreign markets via exporting, licensing, joint venture partnerships, or venture capital investments. Upstart technology companies focus on acquiring overseas talents or partnering with well-known brands to expand their distribution channel. Typical international partners are their suppliers and clients. For example, Lenovo acquired the IBM PC business in 2005. As part of the transaction, Lenovo and IBM entered a broad-based strategic alliance and partnership. Lenovo capitalized on the brand equity and technology of IBM's ThinkPad to quickly develop various new product lines, such as Lenovo Yoga for young professionals seeking fun and innovative products, as well as the Lenovo Z series for small media companies seeking reliable computers of good value. The Lenovo-IBM ThinkPad partnership greatly enhanced Lenovo's brand equity and opened a wide range of distribution channels for the company. Most importantly, Lenovo not only acquired the ThinkPad production line, but also the management talents of IBM, which continues to serve Lenovo.

Generally, high-tech companies evolve into global ones through their reliance on their core technologies and marketing capabilities (Xu et al. 2008). Collaboration with overseas partners also contributes to the strategic horizons of entrepreneurs, helping them develop their businesses in new overseas markets through innovative methods. For example, Ant Financial formed a partnership with bKash, a payment platform in Bangladesh, to co-create a local version of their mobile payment system for Bangladesh (China Daily, 2018). We provide more details regarding Ant Financial's overseas expansion strategy in the following Box 8.3.

Box 8.3 Ant Financial: A Fintech Upstart

Created in 2014, the Hangzhou-headquartered Ant Financial Services Group, formerly known as, has grown into a fintech “unicorn.” As one of China’s largest online payment platforms, offers a variety of financial services, such as mobile payments, microlending, credit scoring, and wealth management. Ant Financial also leverages cutting-edge technology, including big data, blockchain technology, artificial intelligence, security technology, and cloud computing, to provide accessible finance to small- and medium-sized enterprises (SMEs) and individuals. Notably, Ant Financial chooses to establish partnerships with prospective local firms from target countries when it expands itself overseas. For example, Ant Financial acquired the UK-based currency exchange and payments company WorldFirst in 2019. This strategy of creating localized e-wallets with partners in other countries helps to boost its global expansion. As of March 2020, and its global partners serve 1.3 billion users all around the world on international e-commerce platforms such as AliExpress, Lazada, Daraz, and Tmall Global (Liao, 2020). Ant Financial is committed to integrating into people’s lives by providing inclusive financial services in a more secure and sustainable way.

8.3.4 *Culture Carriers*

Culture carriers are companies with intangible cultural heritage resources that enter the overseas market by communicating the essence of traditional Chinese culture. In the early stages of overseas expansion, culture carriers usually focus on creating two unique competitive advantages. First, they develop their own branded products built on Chinese cultural heritage and beliefs. Some good examples include: Shang Xia, a Chinese fashion brand whose designs convey the idea of yin-yang harmony with the heritage of Chinese design and craftsmanship (Godart et al., 2017); Shanghai Tang, the first global Chinese luxury brand featuring traditional Chinese costumes and classics (Park & Yim, 2007); Herborist, a skin-care brand that relies on the tradition of Chinese women using herbal medicine for skin care and beautification (Zhou & Loo, 2011); Jia Duobao, a herbal tea brand known for incorporating Chinese medicinal herbs to lower harmful levels of internal heat, as based on traditional Chinese medicine (Du et al., 2016); and Jiangzhong Hou Gu (Mushroom) Biscuits, a functional food brand known for products made from a type of mushroom said to maintain the stomach’s health, which is based on the traditional Chinese idea that certain foods are linked to the well-being of specific body organs (Chen et al., 2018).

Second, culture carriers take advantage of the overseas Chinese network to gradually establish global brand recognition among mainstream customers. The idea of

using overseas Chinese networks as a beachhead to enter a new market has turned out to be a very viable strategy (Kumar & Steenkamp, 2013b). Overseas Chinese are both the target customers and carriers of traditional Chinese culture in other countries. Given that over 60 million Chinese people live overseas (China Daily, 2017), culture carrier brands have huge potential international markets. Tong Ren Tang, a time-honored traditional Chinese medicine company founded in 1669, is a good example. It has expanded into overseas markets with the ideal that there is a market for Tong Ren Tang wherever there are overseas Chinese. This is reflected in its mission statement, “Where there are health demands, there is a Tong Ren Tang” (Sun, 2017). The rapid expansion of Tong Ren Tang lies in shared cultural references and trust in the effects of traditional Chinese medicine among overseas Chinese, who believe that health depends on the balance and harmony of *qi*, the shape and spirit of the human body that traditional Chinese medicines aim to maintain. Similarly, Tasly Group, a Tianjin-based producer of traditional Chinese medicines, has won global recognition with its philosophy of maintaining health by seeking harmony between humans and nature (Tasly Website n.d.). The underlying strategy of Tong Ren Tang and Tasly Group is the acceptance of traditional Chinese medicine and its cultural identity among overseas Chinese. Guided by Chinese heritage, these culture carriers build a unique brand image and carry the tradition and the essence of Chinese culture worldwide. Tong Ren Tang and Tasly Group have opened numerous and extensive networks of retail outlets in more than 30 countries, including the United States, Singapore, and Australia (Tong Ren Tang Website n.d.; Xinhua News, 2010). With the deepening of the Belt and Road Initiative (BRI), traditional Chinese medicine has become increasingly popular in Central Asia (Xing, 2018). In the following Box 8.4, we describe how Tasly sells the traditional Chinese medicine product to America, Africa, Europe, and Southeast Asia using Chinese culture as a carrier.

Box 8.4 Tasly: A Culture Carrier

The Tianjin-based Tasly Pharmaceutical Group Co. Ltd., founded in, specializes in producing medicines made from traditional Chinese herbs for the treatment of cardiovascular and cerebrovascular diseases, cancers, fevers, and liver ailments (Xinhua News, 2010). Due to the large population of overseas Chinese in Southeast Asia, Tasly began its overseas expansion in countries like Thailand, Indonesia, Singapore, and Malaysia. In Africa, Tasly promotes the concept of by providing training seminars, product trials, and traditional Chinese medicine clinics to the locals, especially the local distributors. distinctive strengths and clinical effectiveness at relatively low cost help to propel Tasly’s strong presence in Africa. In the West, Tasly’s expansion relies on the increasing recognition and acceptance of the benefits that come with viewing human health and wellness holistically, which forms the core philosophy of (Feng, 2018). Tasly also extends its product range to tea, cosmetics, functional foods, health regimen, and medical rehabilitation. Product innovations that combine herbal medicines with modern pharmaceutical technology also contribute to the expansion of Tasly’s export markets, covering many countries in the Americas, Europe, Africa, and Asia (Tasly Website n.d.).

8.3.5 *Overseas Financial Investment and Supply Chain Integrators*

Overseas financial investment and supply chain integrators, which are found in both the manufacturing and service sectors, focus on obtaining complementary assets and resources from overseas companies. This enables backward or forward integration along the supply chain, which is mainly done to satisfy the needs of domestic consumers. These integrators obtain international assets primarily through cross-border mergers and acquisitions (M&A) (Alba et al., 2009). Most integrators are private companies that have undergone dramatic development in the overseas market within the past 5 years. With Mainland China's outbound M&A deals, private-owned enterprises (POEs) have announced that the volume of deals has increased from 145 deals in 2014 to 609 deals in 2016, mainly in the technology, hospitality, entertainment, real estate, and industrial sectors (PwC, 2019). Some of these deals were of very high profile, such as Geely's acquisition of the Swedish firm Volvo, Bright Dairy & Food's acquisition of the New Zealand business Synlait Milk, Fosun Group's acquisition of the French company Club Med, and Beimgmate Group's acquisition of a 100% stake in the American organization SpectraCell Laboratories Inc.

For the supply chain integrators, cross-border M&A not only provides access to resources, technology, knowledge, and well-established brands, but also the path to optimizing supply chain management, thus achieving high performances in both the acquired and acquiring firms. The mastery of core competences such as achieving supply chain synergy is a critical component of their success (Herd et al. 2005). More broadly, a company must be able to integrate its processing and marketing capabilities with those of its suppliers and customers at both a strategic and tactical level (Ross, 2015).

Combining China's growth momentum with the global resources and assets of its supply chain is what Fosun Group, one of China's largest private conglomerates, endeavors to achieve while investing overseas. Founded in 1992 as an IT consulting firm, Fosun's overseas expansion started with its investment in Club Med, a French holiday company specializing in high-end tourism. By acquiring an initial 7.1% of Club Med's shares in 2010 and subsequently raising the share to 98% in 2015, Fosun was able to integrate tourism resources to serve China's middle-class consumers and their lifestyles. In just 8 years, China developed into the largest source of customers for Club Med (Fosun Annual Report, 2018). However, "going global as well as heading back home" is not an expansion strategy unique to Fosun Group when it comes to acquisition decisions and post-acquisition integrations. The Shanghai-based company Bright Dairy, one of the largest dairy firms in the Chinese market, integrated its dairy supply chain through the acquisition of the New Zealand dairy company Synlait Milk and through the construction of its own dairy plants in New Zealand. It should be noted that both Fosun and Bright Dairy introduce Chinese consumers and their domestically focused brands to global markets through acquired companies. Complementary capabilities and supply chain excellence created

through M&A will help to accelerate the growth of supply chain integrators. In the following Box 8.5, we list the major overseas acquisitions of Bright Dairy & Food in New Zealand, Australia, Italy, the UK, and Israel.

Box 8.5 Bright Dairy and Food: An Overseas Supply Chain Integrator

Headquartered in Shanghai, Bright Dairy & Food Co. Ltd. is a member of Bright Group and a listed company in the Shanghai Stock Exchange. It mainly specializes in the production, processing, and distribution of dairy products. It has diverse investors, including the Chinese state, as well as both foreign and private shareholders. As the third largest dairy company in China by volume, it has been actively engaged in cross-border M&A for prime dairy resources and manufacturing technology. In 2010, it succeeded in acquiring a 51% stake in New Zealand's Synlait in the fields of infant formula and milk powder, with a plan to create co-brands with Synlait Milk (Wallace, 2010). In 2011, it acquired a 75% stake in the Australian food producer Manassen Foods for the purpose of collaboration in branding and production. Other major acquisitions were as follows: a 60% stake in the British breakfast cereals manufacturer Weetabix in 2012, a 90% stake in the Italian olive oil producer Salov in 2014 (Xinhua News, 2014), and a 70% stake in the Israeli dairy producer Tnuva in 2015 (Shanghai Daily, 2015). Overseas acquisitions have contributed to Bright Dairy's operational growth along the entire supply chain.

8.4 Pest Challenges and Countermeasures

The five types of expansion patterns are fundamental to the success of Chinese companies and their brands on the global stage. In a highly turbulent global environment, the challenge of international expansion is compounded by external uncertainties, government policies and regulations, international trade regimes, consumer sentiments, and technological breakthroughs. We will evaluate the future of “emerging dragons” by analyzing the Political-Economic-Social-Technological (PEST) situations facing them. Such analysis is especially important for emerging global Chinese firms because during the expansion phase, companies are forced to deal with these external factors far more often (Ho, 2014).

However, the five categories of “emerging dragons” will likely face different external challenges to varying extents. The Type 1 firms, the market dominator “dragons,” face greater exposure to economical, technological, and socio-cultural risks than the others. The Type 2 firms, the export cluster “dragons,” must stay ahead of socio-cultural trends to create and market highly efficient products. The technology innovator “dragons” (Type 3 firms) will be confronted with political and technological challenges. The Type 4 firms, the cultural carrier “dragons,” are especially susceptible to socio-cultural challenges. As for the overseas financial investment and supply chain integrator “dragons” (Type 5 firms), they must be sensitive to political and economic risks from both China and abroad.

8.4.1 *Political Factors*

Political factors generally refer to the various forms of government intervention and political lobbying activity that can influence an economy. Government policies have long been acknowledged as one of the most important external factors facing firms interested in conducting international business (Boddewyn & Brewer, 1994). In global expansion, overseas Chinese companies encounter political risks from both their home and host governments. Regulatory changes or institutional constraints, including government initiatives, policies, tariffs, actions on taxes, and the global political climate, are all major influencing elements.

Internally, the Chinese government has imposed strict political scrutiny and restrictions on overseas supply chain and financial investment integrators, such as Fosun Group and Anbang Insurance (refer to the Type 5 firms in Table 8.1), especially regarding their overseas investments and financing activities. After 2016, as Chinese policies tightened both domestic scrutiny and the review mechanisms of outbound deals, Fosun, HNA Group, and Anbang had to dispose most of their overseas investments. At the same time, several EU members started to raise the bar for Chinese M&A investors by means of a stricter investment screening system (Zhang & Zhang, 2019; Baker McKenzie, 2018).

Similarly, high-tech innovators (Type 3 in Table 8.1) often encounter policy and regulatory obstacles from both home and host-country governments. For instance, in November 2020, the Chinese government halted the IPO of Ant Financial because the company charged a loan rate of 18%, which is higher than the 15.4% rate imposed by the Chinese government. This IPO termination resulted in the loss of billions of dollars for Ant Financial's initial investors. Externally, Chinese companies' activities abroad are also coming under scrutiny (Black & Morrison, 2019). Ant Financial's attempt to acquire MoneyGram in 2018 was rejected by US authorities (China Daily, 2018), and the US government attempted to add Ant Financial to a trade blacklist purportedly due to national security concerns. The other external obstacle for technology innovators is the US tariffs on Chinese imports. For example, a Baker McKenzie poll surveyed 600 multinational companies around the Asia-Pacific region, including 150 Chinese companies. The results indicated that 93% of Chinese companies were considering moving their supply chains out of China to mitigate the threats posed by trade tariffs (Baker McKenzie, 2019). It is obvious that the US tariffs have influenced the many Chinese tech companies to consider the possibility of moving their supply chains out of China. Also, export clusters that take advantage of China's labor cost, and the Chinese government's financial supports (such as export subsidies) may be more likely to encounter political challenges in host countries.

When expanding overseas, it is inevitable that Chinese companies will be vulnerable to changing policies from both home and host governments. Shifting to alternative locations, reducing exposure to uncertainty, or waiting-and-seeing can all be adopted by Chinese companies when addressing political risks. However, in the long run, it seems that Chinese companies are better off integrating the political

variable into their corporate expansion strategies. Generally, political instability and institutional immaturity in host countries tend to present high levels of risk. Under such circumstances, Chinese companies should adopt comprehensive risk assessment strategies when expanding overseas, such as establishing partnerships and cooperation with host-country industry leaders in respective markets to reduce risks. In addition, host-country policymakers may be influenced by the attitudes of local stakeholders, such as consumers, the media, and communities (Stevens et al. 2015). In this sense, Chinese companies are suggested to promote social corporate responsibilities in their host countries.

8.4.2 Economic Factor

Economic policies and environments generally help to promote the further economic integration of overseas companies into the global market. The economic environment on a greater level is examinable through influencing factors such as interest rates, economic growth, exchange rates, and inflation rates. Among these factors, RMB internationalization makes a big difference in dealing with trading costs and risks, resource allocation, and exchange rate volatility.

The export performance of firms in export clusters (Type 2 in Table 8.1) is greatly impacted by the fluctuation of exchange rates. The depreciation of RMB leads to greater price competitiveness for these firms in overseas markets. For instance, when the Yuan fell by about 2% against the US dollar in 2015 (Investopedia, 2020), most of the export clusters in Yiwu experienced a boost in their exports, while Langsha Group, a world-famous producer of socks, reported that its overseas orders rose by over 30%. Oppositely, when RMB appreciates, Chinese exporters, especially those in export clusters, risk reduced foreign demand and profit margins.

Overseas Chinese companies, therefore, need to be prepared for the possibility of RMB appreciation to avoid the risk of losing their international price competitiveness. To maintain profitability, Chinese companies should promote industrial upgrades in the form of cost and quality innovation. Product upgrades and extensions are one of the most important and effective countermeasures. Some export clusters with labor-intensive manufacturing have chosen to import raw materials or products from factories in Southeast Asian countries to cut costs and to increase competitiveness in the face of China's currency fluctuations.

To deal with tariff barriers in some countries, companies in export clusters can choose to set up overseas factories in countries where labor costs are low. In a globalizing world, the parts and components for a single product can be made in various countries. This interdependency in the world economy can reduce the challenges of trade tariffs and encourage cooperation. Rather than developing a product entirely in China, Chinese firms can focus on assembling complex parts and specializing in core technological development, while letting countries with low labor costs make the less complicated components (Timmer et al. 2013). Thus, global sharing and cooperation can mitigate any risks that Chinese companies may potentially face in overseas expansion.

8.4.3 *Social Factors*

Social factors such as population growth, age structure, lifestyle changes, and consumer sentiments can impact a company's decisions to expand into a foreign country. Consumers often take the Country of Origin (COO) into account when making purchase decisions. International consumers generally perceive Chinese products as being of low quality, and often associate the "made in China" label with value pricing, unskilled labor, and cheap materials (Kabadayi & Lerman, 2011). In 2007, a series of product recalls from the United States, the European Union, and Australia for toys, toothpaste, and lipstick that were produced in China worsened China's COO image. Chinese companies must battle against negative COO (Stewart, 2007). Fortunately, these perceptions are changing gradually. For example, the strong global presence established by market dominators such as Haier Group, Lenovo, and Geely has helped burnish the image of Chinese brands as being innovative and of high quality. However, most non-ethnic Chinese consumers are still unfamiliar with Chinese brands. Take for example the Shenzhen-based Tencent, which is one of the world's largest social media companies and ranked No. 8 in the BrandZ™ Global Top 100 (2019), and yet it is still largely unknown to international consumers beyond the overseas Chinese population. The key to changing consumer perceptions of Chinese products is by raising brand awareness.

Cultural distance is a major barrier that culture carriers (Type 3 in Table 8.1) are confronted within the process of expansion. When these companies expand to culturally distant countries, they must change their organizational practices in order to adapt to the host country's culture and endeavor to communicate the cultural essence of their products to the host country's customers. Learning from and cooperating with local host-country partners may be an effective means of bridging cultural distance.

For instance, consider the Yunnan Baiyao brand. Developed in 1902 by a practitioner of traditional Chinese medicine, Baiyao is a white powder derived from gingseng and other plant roots found in China's Yunnan province. Because of its curative effects against bleeding, it was popular among soldiers in the Yunnan province and nearby regions during the Second World War. North Vietnamese soldiers also used Yunnan Baiyao as a battlefield remedy for wounds during the Vietnam War (Dharmananda, 2016). Today, the medicine has been made as a powder, a spray, and a capsule, becoming widely used on injured people and animals. This example suggests that sharing the stories behind products can help consumers better understand the effects of traditional Chinese medicine. Therefore, Chinese companies can adopt the strategy of brand storytelling to influence target customers through different social platforms. The challenge is how to engage customers and acquire brand credibility, thus turning a negative COO image into a positive one.

In order to change the attitudes of international customers, Chinese companies should undertake corporate social responsibility and avoid exporting improper behavior to their overseas operations or host countries since inappropriate conduct can result in negative attitudes among the host-country government and public.

When Chinese companies assign personnel overseas, cultural shock and adaptation should be considered, particularly when the cultural distance is of significant size.

8.4.4 Technological Factors

Technological factors refer to technology-related activities, infrastructure, incentives, and paradigms that may affect the external environment of firms. Closing the technology gap at a faster rate is what makes Chinese companies stand out as leaders among their competitors in the global market. A good example is Huawei, which has developed strong R&D capabilities and innovative technology. In 2018, Huawei topped the list in corporate patent applications at the World Intellectual Property Organization with a record number of 5405 published Patent Cooperation Treaty applications (WIPO, 2018). High-tech innovators (Type 3 in Table 8.1) typically take the lead in patented technologies and innovations. For example, in the MIT Technology Review's 2017 list of the World's 50 Smartest Companies, technology innovators such as Tencent, Alibaba, Ant Financial, and Baidu came in at eighth, 41st, 49th, and 50th place for their innovativeness (MIT Technology Review, 2017).

In general, Chinese firms are exceptional at making innovations that combine different existing technologies and at introducing innovative designs and special features customized for specific markets. However, they need to invest more in technological breakthroughs. Another barrier to the continued innovation of Chinese firms is the environment of the intellectual property (IP) system in China.

To address such challenges, talented scientists, engineers, designers, and artists are essential to a company's innovation. Whether or not an enterprise is innovative largely depends on the number and quality of such employees (Liu & Cheng, 2011). To expand overseas, Chinese companies must set up global innovation networks by integrating worldwide expertise and talents. Furthermore, joint innovation with key universities and research institutions is a necessity both at home and abroad. Chinese companies can also establish their own vocational training schools, universities, or research institutes, which will enhance their dynamism and innovativeness. Global innovation capabilities take time to cultivate and accumulate. If technology is made a central part of expansion strategies, Chinese firms and brands will be able to develop into global brands with the help of cutting-edge technologies.

8.5 Conclusion

Prior IB research has focused on the expansion strategies of multinational companies from developed nations, such as the United States and European Union. Relatively less attention has been given to the overseas expansions of multinational companies from emerging economies. We hope our book chapter will inspire future researchers to investigate the expansion strategies of companies from emerging economies.

Rising protectionist sentiments worldwide, as well as the Covid-19 pandemic, have posed great challenges to the extant strategies adopted by “emerging dragons.” With high tariffs, cross-border acquisition restrictions, and outright bans on technology exportation increasing, “emerging dragons” will have to alter their strategies or change their focus to adapt to the new, more challenging environments. For example, more and more Chinese companies, like Luxshare Precision, have moved to Vietnam and other neighboring countries to set up new factories and avoid high tariffs (Lee, 2019). Chinese cell phone manufacturers, such as Xiaomi, have collaborated with Foxconn to build joint ventures in India, and sell their products in the South Asian market (GizBot Bureau, 2016). Because Covid-19 is a new phenomenon and we are still observing the strategic moves of “emerging dragons,” we are interested in further research to examine the new mechanisms of expansion that “emerging dragons” may use in the post Covid-19 world.

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Chapter 9

Managing Global Expansion in the K-Pop Industry: Strategic Lessons from YG Entertainment



Susan Bartholomew and Joey Nadasdi

9.1 Introduction

In the South Korean music industry, exports in 2018 were 37 times bigger than imports, revealing the critical strategic importance of the music industry to the South Korean economy (Music Ally, 2020; Sinha, 2019). Within the broader music industry, the South Korean pop music, or K-pop, industry is a particularly significant driver of international demand for South Korean cultural exports (Cha & Kim, 2011; Oh & Lee, 2014; Parc & Kim, 2020). The K-pop industry has experienced a remarkable growth trajectory in the last decade, with growth rates in 2018 reaching nearly 18% (Kelley, 2019). Given its significance in the South Korean export economy, the K-pop industry provides an important context in which to examine the strategic actions of Asian multinational firms in international markets.

It is difficult to quantify the exact number of K-pop groups, but there are over 200 well-known acts (Kpop College, 2020). In 2020 alone, over 30 new groups debuted (AllKpop, 2020a). The K-pop genre, marked by sharp choreography, bold hair and clothing, and sex appeal, is propelled by four major players: SM Entertainment, YG Entertainment, JYP Entertainment, and Big Hit Entertainment (Kwon, 2015). SM, YG, and JYP have been engaged in direct competition for over two decades, with founding dates of 1995, 1996, and 1997, respectively, with JYP Entertainment operating on a somewhat smaller scale in comparison to SM and YG. Traditionally, these firms comprised the “Big Three” of the K-pop industry (So, 2021). As illustrated in Table 9.1, Bit Hit, which was established in 2005, has only become financially relevant to the other three firms within the last several years, owing largely to the huge success of their group BTS (Bruner, 2019). Bit Hit’s ascendance now creates an industry dominated by four major players (So, 2021).

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Table 9.1 Total revenues of K-pop record labels (in USD million)

Year of Establishment	Record Label	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
1995	SM	87.1	129	241	268	286.9	280	313	350.3	518	543	395.6
1996	YG	51.8	70.3	96.9	116.6	156.3	170	286.4	321.5	243	218	158
1997	JYP	9.1	17.8	13.5	21.4	48.5	50.6	69.5	94	107	128	92.8
2005	BigHit								82	192	483	716.7

Sources: AllKpop (2020a), Bloomberg (2013a, 2013b, 2013c), Cho (2020), Peoples (2021), Stassen (2020), Tan (2019)

Among the top four K-pop record labels, both YG and SM have demonstrated the greatest market power over time. It is noted by Yeom (2014) that YG and SM took different strategic paths during their international growth, with SM focusing primarily on Asian markets, and YG looking more towards a mix of Western markets and Asian markets. This chapter focuses on the case of YG Entertainment, one of the two largest and more established of the top four K-pop firms. We selected YG as our focal firm because of its greater diversity of international market focus in its early development. Our focus on YG Entertainment also provides complementary insight to an earlier case study of SM's international strategy (Pratamasari, 2017).

Case studies aim to understand dynamics within a single setting (Eisenhardt, 1989). The case study approach has been used in the management literature for a variety of purposes including description and understanding (Kidder, 1982), theory testing (Anderson, 1983), and theory generation (Gersick, 1988). We adopted a case study approach for the purpose of generating description and understanding of the strategies used by a successful K-pop firm across a range of international markets. We directed our effort to archival research of YG's market entries in Japan, China, and the United States over the last two decades. We selected Japan and the United States as these are the top two music markets worldwide according to the most recent Global Music Report of the International Federation of the Phonographic Industry (see Table 9.2). We also included China, given its status as South Korea's largest trading partner (Teixeira, 2019) and the forecast of industry analysts that China has the potential to become the world's largest music market (Shim, 2014). This chapter contributes to the growing literature on international strategy in the K-pop industry by focusing specifically on a major K-pop firm's strategic responses to the cultural and political challenges of three different international markets. Our analysis of YG's strategies reveals five core strategic themes that support YG's international success.

In the next section of the chapter, we briefly summarize earlier management research on the K-pop industry. We also address the international strategy concepts behind our analysis, focusing on Ghemawat's (2001) concept of distance between nations. In the following section, we give an overview of some key challenges for K-pop firms in the three key markets of Japan, China, and the United States. Next, we provide an overview of YG Entertainment and summarize the key strategic themes we derive from YG's approaches to these three international markets. We conclude with a summary of the implications and limitations of this chapter and some directions for future research.

Table 9.2 The top 10 music markets in 2019

Rank	Market
1	The United States
2	Japan
3	The UK
4	Germany
5	France
6	South Korea
7	China
8	Canada
9	Australia
10	Brazil

Source: IFPI (2020)

9.2 Literature Review

Numerous scholars have investigated the causes of K-pop’s rapid growth and global success (see, among others, Ho, 2012; Lie, 2012; Shin, 2009). Parc and Kim (2020) have investigated the role of digitization in the globalization of K-pop. Pratamasari (2017) has studied the role of traineeship and B2B (business-to-business) cooperation in the K-pop industry, while Oh and Rhee (2016) have attributed the international success of K-pop to strategic talent management, social media, and the localization of product offerings. Jung and Shim (2014) further explore the strategic collaboration between K-pop firms and global social media companies. This chapter aims to contribute to this growing body of literature by considering how the strategies of K-pop firms address the cultural and political challenges that international markets present.

This chapter builds on the concept of distance developed by Ghemawat (2001). Ghemawat defines four types of distance between nations that firms need to take into account when assessing international market opportunities and risks: cultural distance; administrative distance; geographic distance and economic distance. Cultural distance between nations is linked to differences in religious beliefs, race, social norms, and language. According to Ghemawat, cultural distance affects consumer preferences and is salient to firms in the media industry or other industries with high linguistic content. As an industry that contains a high degree of linguistic content, as well as a high reliance on cultural references in both lyrics and music videos, the pop music industry can be considered as being highly sensitive to cultural distance.

Administrative distance between nations is due to differing government policies between nations and/or different levels of enforceability of policy or law (Ghemawat, 2001). Absence of a shared currency and political hostility further increase administrative distance. According to Ghemawat, administrative distance is particularly salient in industries where government has a high level of involvement. Typically,

these include industries that exploit natural resources, relate to national security, or produce essential goods such as electricity or communication. In addition, Ghemawat notes that industries that are “national champions” are also affected by administrative distance. Such industries reflect a form of patriotism and can serve as symbols of a country’s modernity. The pop music industry has attracted significant government attention in both South Korea and Japan. For example, the Japanese Ministry of Economy, Trade, and Industry launched the “Cool Japan” strategy in 2012, which aimed to promote Japan’s creative industries, including pop music, both at home and overseas (Craig, 2019; Nagata, 2012). In addition, Miniano (2020) notes that the South Korean Ministry of Culture has an entire department devoted exclusively to the promotion and development of K-pop. The pop music industry is thus considered as highly sensitive to administrative distance.

Geographic distance between nations stems from the actual distance in kilometers between countries, but also by weakness in transportation networks or access to ports, waterways, and airports (Ghemawat, 2001). Geographic distance typically has the most effect on industries in which there is a low value to weight ratio, such as cement, or perishable products such as fresh fruit, and is accordingly of less significance to the K-pop industry.

Economic distance between countries is shaped primarily by differences in consumer incomes or spending power (Ghemawat, 2001). In the pop music industry, however, it has been noted that consumers are not particularly price sensitive (Shulman, 1980), and thus this dimension of Ghemawat’s framework may be less salient to K-pop. Although analysts have observed that there is less willingness of Chinese consumers to pay for the music content they listen to in comparison to music consumers in other nations, this observation has been attributed more to the traditionally high levels of music piracy in China rather than to lower consumer spending power. (Tsoi, 2018). In sum, building on Ghemawat’s concept of distance between countries, K-pop can be defined as an industry that is highly sensitive to both cultural distance and administrative distance, but is less sensitive to geographic distance or economic distance.

9.3 Challenges for K-Pop in Three Key International Markets

Global interest in various layers of South Korean culture has risen substantially in the past few decades. *Hallyu*, or the Korean Wave, is a term used to describe this increased global interest in South Korean culture since the 1990s (Farrar, 2010). Korean cuisine, television dramas (K-dramas), and K-pop are all facets of the *hallyu* phenomenon and have had a significant effect on the South Korean economy. According to data released by the Korean Foundation for International Cultural Exchange (KOFICE), *hallyu*-related exports came to \$US 12.3 billion in 2019, up 22.4% from 2018 (Yonhap News Agency, 2020). As noted in the introduction, the

K-pop industry has been a particularly significant driver of growth for South Korean cultural exports (Cha & Kim, 2011; Oh & Lee, 2014; Parc & Kim, 2020). The South Korean music market has had a remarkable growth trajectory in the last decade, and experienced a 17.9% increase in revenue growth in 2018 (Kelley, 2019).

With just one percent of the world's population speaking the Korean language, the efforts of K-pop firms outside of the Korean peninsula remains vital to their future growth (Martin, 2019). Interestingly, despite this language barrier, K-pop fares well alongside both other Asian music products and anglophone hits. Messerlin and Shin (2017) used a visibility ratio of YouTube clicks divided by native speakers to examine the visibility of pop music in the digital economy. Their research reveals that K-pop hits have a 60% higher visibility ratio than their anglophone hits counterparts (see Table 9.3).

Understanding how K-pop firms transcend language and other cultural barriers is an important part of understanding their global success. As discussed earlier, the pop music industry is highly sensitive to both cultural and administrative distance between nations and firms need to account for such distance in their strategies when entering international markets. We now explore some of these challenges in three key international markets for K-pop: Japan, China, and the United States.

9.3.1 *Japan*

As of 2020, Japan is the largest music consuming market after the United States, so it is no surprise that K-pop has seen an important presence here (IFPI, 2020; Smirke, 2020). The popularity of K-pop in Japan draws on Japanese consumers' strong interest in South Korean popular culture, initially fueled by the popularity of Korean melodramas (K-dramas) such as *Winter Sonata* which first aired in 2003 (Joy, 2017). That same year, K-Pop made its first big inroads into Japan, with SM's female artist BoA. Following BoA's success in Japan, K-pop boy bands such as SM's TVXQ and YG's Big Bang made significant entries into the market (St. Michel, 2011). Although Japan has their own internal pop music market, coined J-pop (Craig, 2019), Japanese consumers still rave over K-pop's offerings. In fact, many K-pop stars are in fact Japanese, including May (Cherry Bullet), Hitomi (IZ*ONE), and Juri (Rocket Punch) just to name a few. The increased visibility of Japanese figures in modern K-pop has launched a wave of young Japanese girls relocating to South Korea and paying up to \$US 3000 for K-pop prep programs (Park, 2019).

The popularity of K-pop in Japan has been attributed to a number of features. One is the inherent international element of K-pop which has taken many cues from Western music, including European electro house and American R&B (St. Michel, 2011). A second element is the higher quotient of sex-appeal of K-pop stars beside the relatively conservative Japanese artists. For example, it has been suggested that while J-pop places a higher emphasis on adolescent cuteness, K-pop stars in comparison are presented with a more mature sexualized presence (Kelley, 2019; St. Michel, 2011). Although K-pop's musical style and image differentiation from

Table 9.3 Pop music visibility in a digital world: selected biggest hits

Performers	Year	Titles	Clicks YouTube (million)	Native Speaker (million)	Clicks per native speaker
Megahits					
PSY	2012	Gangnam style	2463	56	43.98
Justin Bieber	2010	Baby	1247	360	3.46
Stromae	2013	Papaoutai	308	74	4.16
UK/US					
Adele	2010	Rolling in the deep	765	360	2.13
Adele	2015	Hello	545	360	1.51
Justin Bieber	2015	What do you mean	380	360	1.51
Justin Bieber	2015	Sorry	230	360	0.64
Total			1920	1440	1.33
South Korea					
Big Bang	2012	Fantastic baby	187	56	3.34
Big Bang	2015	BangBangBang	83	56	1.48
2NE1	2011	I am the best	138	56	1.48
Girls Generation	2011	The boys	129	56	2.30
Girls Generation	2013	I got a boy	148	56	2.64
Girls Generation	2015	Party	47	56	0.84
Total			732	336	2.18
France					
<i>Music benefitting from the French radio-quotas policy</i>					
Johnny Hallyday	2007	Je te promets	10	74	0.13
Mylène Farmer	2010	Oui mais non	7	74	0.09
Stromae	2013	Formidable	131	74	1.77
<i>Music not benefitting from the French radio-quotas policy</i>					
Daft Punk	2013	Get lucky	237	360	0.66
David Guetta	2014	Dangerous	105	360	0.29
Japan					
AKB48	2010	Heavy rotation	121	125	0.97
Exile	2014	24 world	12	125	0.09
E-girls	2015	Anniversary!	11	125	0.09

Source: Messerlin & Shin (2017)

J-pop has been considered to be the basis of its success, K-pop artists still require substantial language and cultural training in order to release songs in Japanese to gain mainstream popularity (St. Michel, 2011).

The Korean wave has not been met without pushback in Japan. The country's nationalistic trends have been underlined by anti-Korean wave sentiment in which crowds have taken to the streets to protest the presence of excessive South Korean cultural exports to Japan (Park, 2014). In addition, the Japanese Ministry of Economy, Trade, and Industry launched the "Cool Japan" strategy in 2012 which aimed to promote Japan's creative industries both at home and overseas and

strengthen the cachet of the Japanese national brand (Craig, 2019; Nagata, 2012). K-pop firms have thus faced not only competition from each other and local J-pop talent, but also from the Japanese government itself.

9.3.2 *China*

As the most populous country in the world, with growing affluence, China is at the center of K-pop's radar, with the potential to become the world's largest music market (Shim, 2014). China's music industry is currently ranked as the seventh largest in the world (see Table 9.2), exhibiting significant growth from their rank of 12th in 2018 (Pastukhov, 2019). 25% of South Korean exports are destined to China, making it the nation's biggest trading partner (Teixeira, 2019). Among other notable exports such as smartphone chips, Korean wave (*hallyu*) products such as K-pop and K-dramas became hugely popular in China earlier this decade, driven by a growing middle class with significant disposable income, and a relatively open international exchange (Teixeira, 2019). Most Chinese millennials were introduced to K-pop in the 1990s, when mainland China music magazine Modern Music Scene frequently featured 90s K-pop acts (Shuhong, 2020). The later rise of *hallyu* in China has been considered to coincide with the Chinese state's liberalization of the media, the growth of the media industry, and the rising home ownership of media devices (Sun & Liew, 2019). Similar to the previously mentioned trend in Japan, Chinese youth are also drawn to K-pop stardom. Some notable Chinese K-pop idols include Anthony (VARSITY), Jun (Seventeen), and Lay (EXO) (Shuhong, 2020). K-pop groups have a notable presence on Chinese social media giant Weibo, with groups like BTS (known as 防弹少年团, or "Bulletproof boyscouts" in China) boasting millions of followers (BTS, n.d.).

However, for many South Korean musicians, China has been a difficult market to tap because of strong government restrictions on imports and the broadcasting of foreign cultural content, as well as heightened risk of copyright infringement (Shim, 2014). In 2011, China's digital music piracy rate was 99%, according to a report by the International Federation of the Phonographic Industry. However, substantial transformation in the Chinese music streaming market over the last decade, driven by major players Tencent, NetEase, and Alibaba, has completely changed the way Chinese consumers listen to music (Tsoi, 2018). Recent estimates suggest 96% of consumers now listen to licensed music which substantially changes the profitably prospects for K-pop labels (Tsoi, 2018).

Most recently, K-pop's biggest barrier to success has been political tension. South Korea's decision to partner with the United States in building the THAAD rocket defense system over the Korean peninsula pushed China to ban all *hallyu* content, including K-pop, in 2016 (Sanchez, 2016; Teixeira, 2019). As of 2020, the ban is officially lifted, although many K-pop acts are facing difficulty regaining popularity. Rising nationalistic ideations such as 国家面前无爱豆 (the fate of my nation outweighs the passion for my idol), and the risk of other foreign content bans

in the future, pose a significant barrier to the Chinese market for the K-pop industry (Luo & Zheng, 2020).

9.3.3 *United States*

The United States is not only the largest music market in the world (see Table 9.2), but also occupies the strategically important role of trendsetter in the global music industry. As of March 2019, over 70% of the songs on Spotify's Global Top-50 playlist were recorded by US-based artists, showing that the influence of the US spreads far beyond the country's borders (Pastukhov, 2019). K-pop has seen a recent spike in popularity in the world's largest music consuming nation with K-pop moving from the space of a specialized genre into mainstream popularity. For example, in 2018, K-pop group BTS sold out more than a dozen concerts in the United States (Herman, 2018b). In 2019, BlackPink's appearance at the California festival Coachella marked a historic moment in the industry as they became the first K-pop girl group to ever play in a US festival (Barlow, 2019). Collaborations between American and K-pop artists are also on the rise, with songs such as *Sour Candy* (Lady Gaga & Blackpink) and *Boy With Luv* (BTS & Halsey) debuting on the American Billboard Top 100.

American interest in Korean entertainment is far from novel. During the Korean war (1950–53), Korean singers performed for American troops (Saeji, 2020). That same decade, the Kim sisters traveled from Korea to Las Vegas for their infamous performances on American stages and television. Over the past quarter century, however, K-pop has seen an evolution from this primary, folk-based influence that Americans enjoyed in the twentieth century to the highly choreographed and commercialized K-pop of today.

In 2018, the top music genres in the United States were hip-hop, pop, rock, and R&B (Watson, 2019). It is thus no surprise that K-pop, a calculated blend of pop synths, rap-like verses and R&B style would be appealing to this immense music market. Major K-pop artists such as BTS, Rain, and CL have acknowledged the large influence that African-American musical style and culture has had on their own music and video productions (Hurt, 2018). However, for many, this influence has crossed over into charges of cultural appropriation and a call for the K-pop industry to acknowledge more strongly their debt to black culture (Inoue, 2020). Such acknowledgment is an important element to engage the US fan base where K-pop "stans," or supporters, in the United States have rallied strongly behind the Black Lives Matter (BLM) movement (Darby, 2020; Hong, 2020). Many K-pop artists have responded with greater media and financial support, such as the pledge of K-pop group BTS and their management company Big Hit Entertainment of \$US 1 million in support of the BLM movement (Saeed, 2020).

Another challenge to K-pop in the US market is the marked lack of Asian personalities in American entertainment. One study noted that despite people of Asian descent comprising 6% of the US population, Asian-Americans represent less than

1% of all leading Hollywood roles (Force, 2018). This apparent systematic exclusion of Asians from success in American media may serve as one of K-pop's biggest barriers in this hyper-competitive market.

9.4 Strategic Lessons from YG Entertainment

9.4.1 Overview of YG Entertainment

YG Entertainment was founded by Yang Hyun-suk in 1996. As one of the top four K-pop record labels, YG achieved revenue in 2020 of \$US 158 million (see Table 9.1). YG currently represents over 20 major K-pop artists including Blackpink, Big Bang, and Treasure, just to name a few. YG was also the driving force behind the internationally successful girl group 2NE1, which has since disbanded, and the infamous PSY, of *Gangnam Style* fame, who has since left YG to work independently. YG made their first big international expansion with the powerhouse boy band quintet Big Bang in Japan in 2008. Fast forward to today, Big Bang are widely recognized as the “Kings of K-pop” and as one of the most successful K-pop acts in history (Straits Times, 2016). YG's growth strategy has entailed targeting a more diverse range of international markets from the beginning than its longstanding rival SM (Yeom, 2014). It has also been noted that YG's organizational culture is less rigid than its competitors, with artists allowed to have more freedom to make their own choices about musical style and image (Yeom, 2014). These characteristics make YG a particularly interesting case in which to explore a K-pop firm's strategic responses to the challenges of cultural and administrative distance in international expansion. Our review of YG's approaches to the markets of Japan, China, and the United States reveals five core strategic themes from which other firms may learn.

9.4.2 Theme 1: Local Adaptation and Leveraging Local Knowledge

YG Entertainment has employed several classic strategies to mitigate the barriers of cultural distance between nations. In some instances, YG has engaged in substantial adaptation of products to meet the unique needs of particular international markets. For example, before introducing the powerhouse boy band quintet Big Bang to the mainstream Japanese market in 2009, the five members all underwent intensive Japanese culture and language training (Oh & Rhee, 2016; Lu, 2016). The names of three of the five member were changed so that they would be easier for Japanese fans to pronounce, and albums were released with a combination of English and Japanese songs (Lu, 2016).

YG has also established partnerships with local firms for promotion, leveraging the knowledge, reputation, and networks of their local partners to gain greater access to local consumers. For example, YG partnered with Universal Music Japan, a subsidiary of Universal Music Group, to support Big Bang's promotion in Japan (Lu, 2016). In China, YG has partnered with China's social media giant Tencent, allowing them exclusive distributions rights for all music and videos on their leading QQ music platform. This partnership allows YG to leverage Tencent's extensive user reach and platforms such as WeChat (Weixin) and QQ in order to increase the reach and distribution of YG artists across the Chinese market (Frater, 2016). YG and Tencent also have announced plans to co-produce media content (Frater, 2016), allowing YG to develop further local responsiveness in content development.

A further strategy YG has used for many years to gain more traction with foreign consumers, particularly in the US market, is through collaboration with local artists. For example, G-Dragon has partnered with American recording artist Missy Elliott (Lent, 2013) and BlackPink has collaborated with American superstars Selena Gomez and Lady Gaga (Maiike, 2020). In sum, YG provides examples of a variety of local responsiveness strategies to combat the challenges of cultural distance and help expand their success and reach in different foreign markets.

9.4.3 Theme 2: Balancing Adaptation and Authenticity

While YG has experimented with a range of adaptation approaches of its artists over the years, another key strategic lesson that emerges is that adaptation may also have its pitfalls, and over-adaptation to foreign markets runs the risk of losing authenticity. This lesson is particularly well illustrated in the example of the artist Se7en's market debut in the United States in 2009 with the track *Girls*. Prior to entering the US market, Se7en spent 3 years perfecting his English and studying the American club sounds of the era (Liu, 2008; Lu, 2016). The *Girls* music video features dominantly American cultural references and themes, a non-Asian cast, a feature by American artist L'il Kim, and a very American-sounding Se7en singing in perfect unaccented English. However, in over-adapting to the US market, Se7en failed to differentiate his music from the intensely competitive US market. For example, following the release of the *Girls* music video (MV), reviews posted on the K-pop music site *Popseoul* noted the video's lack of authenticity with such comments as "this looks like a million other American hip-hop style MVs" and "he needs to stop copying every other U.S. video out there" (Popseoul, 2009). In the end, Se7en's US debut was singularly unsuccessful (Oh, 2011); despite the substantial preparation and adaptation, Se7en retreated from the US market and returned to South Korea (Herman, 2014; Lu, 2016).

This lesson in balancing adaptation with authenticity is particularly poignant when contrasting Se7en's US debut with the release of PSY's *Gangnam Style* 3 years later. Although much can be made of the sheer novelty behind the viral spread of *Gangnam Style*, there are some core strategic issues underlying PSY's

hugely successful US debut. While Se7en did not leverage his national origin, PSY made ample use of K-pop's rising global appeal, with the song unapologetically sung largely in Korean, a dominantly Asian cast in the music video, and numerous South Korean cultural references. Furthermore, rather than focusing the music video on an American setting, cast, and cultural references, PSY captured universal themes such as humor and the satirizing of materialism, as well as offering the complementary product of the now-famous "horse dance," which transcended cultural borders (Chang, 2012). These universally appealing features, coupled with "just enough English" in the chorus to allow global consumers to connect to the song, helped fuse the attributes of authenticity and local appeal.

A similar tension between adaptation and authenticity was evident in CL's positioning within the US market in her debut American single *Lifted* in 2016. *Lifted* displays a strong musical influence of American hip-hop, in particular the legendary 1990s US hip-hop group Wu Tang Clan's *Method Man*. (Kim, 2016a). American rapper Asher Roth co-produced the song while CL wrote the all-English lyrics, and the music video, which features CL roaming an inner-city neighborhood in New York, was filmed by popular American director Dave Meyers. Promotion was managed by American talent manager Scooter Braun, who also discovered Justin Bieber and helped PSY with his debut in the United States (Kim, 2016a). However, CL's efforts to adapt to, and market directly to, an American audience also raised sharp criticism of cultural appropriation and charges of a disconnect between "hip-hop culture in the social justice context of America and the mass-marketed, displaced production of CL's English songs" (Lee, 2017).

A further issue with CL's US debut of *Lifted* was that the explicit references to drugs and alcohol caused some disenfranchisement with CL's more conservative South Korean fan base (Kim, 2016b). Collectively, these market entry experiences of YG suggest an important lesson for firms in recognizing the importance of retaining authenticity and the connection to domestic consumers when engaging in foreign market adaptation strategies.

9.4.4 Theme 3: Shifting to Local Production to Mitigate Administrative Distance

As discussed earlier, the Chinese market represents a very large and growing market for the K-pop industry (Teixeira, 2019). However, the political tension between South Korea and China, as well as risk of music piracy within the Chinese context (Shim, 2014; Teixeira, 2019), represents substantial hurdles of administrative distance for firms such as YG. An interesting trend has emerged in the K-pop industry of a shift from export towards local production in China as a means to mitigate these challenges. In 2018, competitor K-pop label JYP Entertainment began recruiting and developing groups in China with their flagship initiative Boy Story (Hong, 2018). The six members of the group, all Chinese nationals with an average age of just 13 years old, has seen great success in China since their launch (Herman,

2018a). YG has followed suit, investing in a Chinese subsidiary label called Shining Star Entertainment. The label is developing the boy band Shining Star Boys (unofficial band name) and is also preparing to launch a new all-Chinese girl group in 2021, Baby Monsters, teasing fans by announcing the first two members in July 2020 (AllKpop, 2020b).

The shift of YG's strategy in China towards local recruitment and development of bands in China for the Chinese market entails a move from export to local production. Gupta and Govindarajan (2000) articulate several key benefits associated with a shift to local production: reduced shipping costs; reduced tariff costs; greater ability to meet local content requirements; greater ability to customize for local market; and in some cases, lower input costs. In the context of K-pop, the shift towards local development of talent and music production within China allows YG to grow their market presence in China without the risk of tariffs, travel restrictions, or political bans on foreign content. Another benefit for YG is the ability to better customize the band members songs and videos to local consumer preferences, and to leverage national pride through using local talent. Since band members are all local, there are no costs of cultural training of band members, thus adding further cost advantages. Finally, the human resource costs are also lower, with wages and salaries in the industry being significantly lower in China than in South Korea (Countryeconomy.com, n.d.). According to Gupta and Govindarajan (2000), the benefits of a shift to local production are predicated on the assumption that market size is large enough to justify the costs of investment and allow obtaining of minimum efficient scale. In the case of China, the market size is also significant, further substantiating the benefits of localization. In sum, YG's strategic shift towards local production in China represents an effective strategy to mitigate the political challenges that the Chinese market presents, while also gaining cost advantages and more effective customization to local preferences.

9.4.5 Theme 4: Balancing Local Responsiveness and Global Brand Building

Many of the strategies discussed thus far have focused on local responsiveness towards these specific international markets. However the challenges that any firm faces in pursuing a strategy of local responsiveness for a given foreign market is that such products, or successes, may not be transferred effectively to other markets, thus limiting the worldwide learning capability of the company or the building of global brands (Bartlett & Ghoshal, 1989). If YG is to become a truly global entertainment company, beyond a collection of singular foreign market successes, the simultaneous building of global brands becomes a competitive imperative.

YG's girl band BlackPink represents an example of the firm creating a global band and brand. Not only has the band been the most popular act on YouTube for the last several months (Shaw, 2020), their global influence has risen by recently being named the Goodwill Ambassadors of the 2021 U.N. Climate Change Conference

(Kaufman, 2021). The band's appeal to global consumers can be attributed to the diversity of national identity of the band itself (Shaw, 2020). Three of the four band members were not raised in South Korea, hailing from Australia, New Zealand, and Thailand. Collectively, the band members also speak five languages: Korean, English, Mandarin, Japanese, and Thai (Moon, 2019). The diversity of the band creates a transnational identity that helps transcend many of the cultural and political barriers mentioned earlier. Their multi-lingual capability also offers significant opportunity to be leveraged in marketing and promotion. Each of the band members has roots in a different country which brings a wide range of musical influences to the band. This diversity of musical input helps the band to develop a sound that transcends the style of any one particular region. Santos et al. (2004) note that products created by combining diverse pools of knowledge from around the world have potential for more global appeal. The same logic applies to the development of products and performance within the pop music industry. By capitalizing on more culturally, linguistically, and regionally diverse human capital, BlackPink embodies the competitive benefits of a product with more global appeal.

9.4.6 Theme 5: Strategic Diversification into Related and Supporting Industries

YG's strategy to strengthen its international reach and global appeal is supported by its diversification into a range of related and supporting industries. Over the last decade, YG has diversified into beauty care and cosmetics industry, a sector in which South Korea has major competitive strength and strong global reputation (Euromonitor, 2020; Liu, 2018). In 2014, YG launched the *moonshot* cosmetic brand which sells Korean-made cosmetics and reportedly sees up to half of their sales in China (Kilburn 2014; Kato & Moriyasu, 2015). To gain legitimacy, YG's *moonshot* has partnered with Coson, the cosmetics R&D leader and manufacturer behind some of South Korea's biggest beauty brands (Bourgeois, 2016).

The diversification into cosmetics and beauty care offers substantial benefit to YG's entertainment business through cross-promotion opportunities between pop music and cosmetics (Sindyukov, 2020). YG artists are used to promote the cosmetics in advertisements, and the growing ubiquity of *moonshot* as a global brand helps strengthen the global reach of YG artists (Lim, 2018). The range of artistic styles and images within the YG portfolio, from edgy to wholesome, allows for promotional opportunities across a wide range of cosmetic products, including the rapidly growing segment of men's skincare and cosmetics (Rapp, 2020). By associating with another competitive South Korean industry, cosmetics, YG is able to leverage further the South Korean national brand. YG has also diversified into the global fashion industry, launching a luxury streetwear brand, *Nona9on*, in partnership with Samsung's textile subsidiary Cheil Industries (Lee, 2014). YG's bold hip-hop flavor is reflected in the *Nona9on* style, and YG derives similar cross-promotion benefits between its artists and its clothing line as it does in its cosmetics venture.

9.5 Conclusion

The global rise of the K-pop industry plays a significant role in the South Korean economy. Within the context of this industry, this chapter presents a timely study of an Asian multinational firm's activities both in the West and in other parts of Asia. The study contributes to the growing management literature on the K-pop industry by examining the strategies of one of the industry's major players in relation to the cultural and political barriers presented by three main international markets. The chapter contributes to the literature on strategies of local adaptation and responsiveness (e.g., Cavusgil et al. 1993; Nie & Wang, 2019; Prahalad & Doz, 1987) by providing a variety of examples of how a K-pop firm uses adaptation, local partnerships, and collaboration to help mitigate cultural and political risk. The study also contributes to the literature on firms' motivation to move from export to local production by showing the applicability of existing theory on the topic (i.e., Gupta & Govindarajan, 2020) in the context of the K-pop industry. Finally, the study provides an illustration of how a K-pop firm has developed a band with a high level of global appeal by combining diverse musical and cultural experience from around the world. This example supports the literature on meta-national innovation that suggests that firms that are able to link and leverage diverse knowledge from around the globe stand a better chance for innovation and global success (Santos et al., 2004; Hansen & Nohria, 2004).

YG Entertainment's international expansion journey reveals five core strategic themes that are central to their survival and continued global success. Inherent in these themes is the need to create a balance between local market responsiveness, global brand-building, and leveraging of home country origin. These lessons derived from YG's experience are applicable not only to the entertainment industry but may also hold practical significance across other industries that are sensitive to cultural and administrative distance.

The limitations of the study are that it focuses on only one firm, YG Entertainment. Further case studies of the other major players in the industry would complement the current study. Another limitation is that the study has relied on archival research. Future research involving in-depth interviews inside the firm, and with its strategic partners and artists, would reveal deeper insight into some of the themes derived in this work. Another limitation of this chapter is that the single case study approach cannot establish causality between the firm's strategies and its market success. Future studies in the industry with methodologies more suited to cause and effect, such as experimental design, would add insight into the effectiveness of different strategies. A further limitation of the work is that it has explored the firm's efforts in only three markets: Japan, China, and the United States. A promising area for future research would be to examine K-pop strategies in other regions such as Southeast Asia where K-pop has a large and growing following (Shim, 2019).

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Chapter 10

Shanzhai (Mountain Village) Vs. Counterfeit Products in China: Conceptualization, Value Drivers, Business Models, and Solutions



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A young Israeli entrepreneur named Yekutiel Sherman spent an entire year designing a smartphone case selfie stick that allows consumers to easily take pictures of themselves (Horwitz, 2016). Unfortunately, only 1 week after his product launched online, a number of different *shanzhai* versions of Sherman's smartphone case selfie stick were sold across China (see Fig. 10.1). Excepting similar appearance, the *shanzhai* smartphone case selfie sticks held additional functions (e.g., a charging function) and were sold for a much lower price than Sherman's original version (US\$47.41 vs. US\$10). It is a familiar story: Sherman's the original and authentic smartphone case selfie stick fell victim to the competition of China's notorious *shanzhai* products. Chinese *shanzhai* manufacturers have faster production speed and more advanced production techniques and are buttressed by a huge domestic market.

This chapter examines a well-known and widespread phenomenon—*shanzhai* products. Many people think *shanzhai* products are the same as counterfeit products. Although both of them are created as imitations of original brands, *shanzhai* products have their own unique features. To illustrate this prevalent phenomenon,

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Fig. 10.1 The original smartphone case selfie stick vs. its *shanzhai* counterpart. (Source: The smartphone case selfie stick figure was adopted from <https://qz.com/771727/chinas-factories-in-shenzhen-can-copy-products-at-breakneck-speed-and-its-time-for-the-rest-of-the-world-to-get-over-it/>)

we will first briefly define the term “*shanzhai* products” and explain the differences between *shanzhai* products and counterfeit products. Next, we will explain what factors drive consumers to choose *shanzhai* products over counterfeit products. Third, we will discuss the business model of *shanzhai* products and explore the characteristics and paths of *shanzhai* business strategy. Finally, several solutions will be provided for original brands to fight against the threat of *shanzhai* products.

10.1 What Are *Shanzhai* Products?

Many famous international brands have become highly successful in the Chinese market in the past 30 years. Yet, such success has also allowed for the rapid growth of imitation products: the *shanzhai* products. *Shanzhai* originated from the Chinese characters “山寨,” which historically meant “a bandit stronghold outside government control” (Chubb, 2015; Tse et al., 2009, p. 2). Presently, *shanzhai* mainly



Fig. 10.2 Examples of *Shanzhai* products. (Sources: Hiphone was adopted from <http://mobile.yesky.com/478/11462478.shtml>; Miniso was adopted from <https://36kr.com/p/926286958709125>; Sunbucks was adopted from <https://www.gizchina.com/2011/08/11/top-5-fake-stores-china/>; Adivon was adopted from <http://www.chinaipmagazine.com/journal-show.asp?1651.html>; Dibea was adopted from https://dibea.tmall.com/category.htm?spm=a1z10.1-b-s.w5001-18117075073.3.6b1154856xJQ7e&search=y&scene=taobao_shop)

refers to imitative products that copy the originals’ appearance and function but are often sold at much lower prices (Qin et al., 2018). For example, the HiPhone (see Fig. 10.2), iPhone’s *shanzhai* counterpart in China, looks like an iPhone, but has

innovative functions (e.g., a removable phone battery and ultraviolet lights for detecting counterfeit bills) (Sun, 2010). These *shanzhai* mobile phones were sold for around US\$100, bringing forth a strong demand for them in East Asian and African markets, and were estimated that they accounted for approximately 20% of the market share on the global mobile phone market in 2010 (Beekers, 2018; Kwong, 2010). A similar example is MiniSo (see Fig. 10.2), a Chinese retail brand imitating the famous Japanese retail brand Daiso and Muji. MiniSo has opened more than 4000 stores worldwide with a total sales volume of 2.7 billion dollars in 2019 and has been listed on the New York Stock Exchange on Oct 2020 (Hong, 2020). Although *shanzhai* products have long been criticized, nothing seems to be able to hinder their rapid development. Many consumers view *shanzhai* as a good alternative to the originals and counterfeit products due to their acceptable product functions and much lower prices (Qin et al., 2018; Qin et al., 2019).

10.2 *Shanzhai* Products Vs. Counterfeits

Consumers often use *shanzhai* interchangeably with counterfeits and consider *shanzhai* a category of counterfeit products. Although both copy the designs of original products, *shanzhai* products differentiate them from counterfeit products in several key ways.

Counterfeits are defined as being “any unauthorized manufactured goods whose special characteristics are protected by intellectual property rights (trademarks, patents, and copyrights)” (Cordell et al., 1996, p. 41). They include high-quality counterfeits, low-quality counterfeits, and lookalikes (also known as knockoffs) (Cesareo, 2016, p. 2). Both high-quality and low-quality counterfeits illegally use the original brands’ trademarks without any authorization, yet the difference is in the extent of their deceptiveness from the perspectives of the consumers. High-quality counterfeits look almost identical to the originals and can easily deceive consumers’ eyes, while low-quality counterfeits are much the same, except that they use inferior production techniques and materials and are therefore detectable by discerning consumers. Lookalikes/knockoffs only look similar but are not exactly the same as the originals, and thus not as deceptive as high-quality or low-quality counterfeits. Furthermore, high-quality and low-quality counterfeits also represent the infringement of intellectual property rights (IPR) and are restricted by law in most countries, whereas the regulation concerning lookalikes/knockoffs is often ambiguous and varies across countries. In practice, due to the lack of a common standard, it is hard to define what kind of similarities can be considered trademark infringement. The court often needs to make judgments on a case-by-case basis (Bird, 2007; Zaichkowsky, 2006). For example, Adidas spent more than 5 years persecuting Adivon (see Fig. 10.2), claiming that Adivon copied both its brand name and its logo. However, the court held that Adivon’s brand name and logo did not constitute as infringement, and the two companies finally settled out of court with an agreement that Adivon could not use its initial brand logo (Li, 2013).

Shanzhai products imitate the originals’ appearance and function by using similar but non-identical trademarks (Qin et al., 2018, 2019). Some of them even have innovative features. Qin et al. (2018) categorized *shanzhai* products into two groups: non-innovative *shanzhai* and innovative *shanzhai*. Non-innovative *shanzhai* are complete imitations, capturing the original brands’ appearance and function without adding any enhanced attributes, just as lookalikes/knockoffs do. For example, the *shanzhai* coffee brand “Sunbucks Coffee” (see Fig. 10.2) simply imitated Starbucks only by changing a few letters of the original Starbucks brand name (Andi, 2011). Innovative *shanzhai*, on the other hand, add innovative or enhanced product functions on the basis of imitation (Chubb, 2015; Qin et al., 2018; Tao et al., 2010). For example, “Dibea” (see Fig. 10.2), a Chinese cordless stick vacuum manufacturer, copied Dyson’s visual features and key functions, but also provided enhanced product functions, such as a removable battery and LED lights (Tmall, 2021). Due to the legitimacy of *shanzhai* in emerging economies, many *shanzhai* products have already passed ISO 9001 quality insurance system and also can provide after-sale protection (e.g., 7-day return policy without giving a reason, 1-year warranty). Therefore, different from counterfeits, *shanzhai* products rely on their similar appearance and function to the original brands in order to attract middle- and low-end consumers, but they may later gain the ambition and capacity to grow to be competitive brands. We summarized the characteristics of both *shanzhai* and counterfeit products in Table 10.1.

Table 10.1 Typology of *shanzhai* products and counterfeits

	<i>Shanzhai</i> products		Counterfeits	
	Innovative <i>shanzhai</i>	Non-innovative <i>shanzhai</i> / lookalikes/ knockoffs/ copycats	High-quality counterfeits	Low-quality counterfeits
Differentiated from originals?	Yes	Yes	No	Yes
Legal?	Yes	Illegal in most developed countries; legal in many developing countries	No	No
Innovative functions?	Yes	No	No	No
Similar appearance and function to originals?	Similar but different	Yes	Almost identical to originals	Try to come as close as to originals as possible
Estimated dollar values?	No exact <i>shanzhai</i> market dollar values could be provided. Yet, <i>shanzhai</i> manufacturers have said “we can produce both <i>shanzhai</i> and counterfeit products, depending on orders and market needs.”		Counterfeit values globally reached to \$1.2 Trillion in 2018 (Wood, 2017)	

Source: Qin et al., 2018

As indicated in Table 10.1, Chubb (2015) identified two values to *shanzhai* products: the first is replication and the second is innovation. While replication overlaps with the characteristics of lookalikes/knockoffs, innovation is what sets *shanzhai* products apart from counterfeits. Many *shanzhai* manufacturers begin by producing non-innovative *shanzhai*, and later try to produce innovative *shanzhai* once they have obtained innovation capabilities (Leng & Zhang, 2011). Successful *shanzhai* manufacturer typically have the following characteristics:

1. **Capacity for Innovation:** *Shanzhai* manufacturers have a deeper understanding of local markets and often try to improve the original brands' features in order to adapt to local consumers' interests. For example, *shanzhai* mobile phones were well known for providing additional function (e.g., solar charges, TV tuners) by imitating and improving the genuine mobile phones' design and function (Walsh, 2016). *Shanzhai* handbags often equipped with more functions, such as zippers and pockets to prevent theft. Such a functional improvement well adapt local consumers' needs for security.
2. **Capacity for Combination:** Benefiting from China's unique industrial cluster systems, for example, the Pearl River Delta and the Yangtze River Delta economic zones, *shanzhai* manufacturers can rapidly imitate the design of leading brands and then utilize China's technological advantages, low-cost raw materials, services, and marketing channels to make and sell their own *shanzhai* brand products to large scale of consumers in China (Dong, 2014; Luo et al., 2011). Because *shanzhai* manufacturers save research and development expenses, they charge lower prices on *shanzhai* products. The Chinese cooperative networks in the Pearl River Delta and the Yangtze River Delta economic zones offers *shanzhai* manufacturers unique competitive advantages.
3. **Potential to Develop into Leading Brands:** Innovative *shanzhai* manufacturers are ambitious. Although starting from pure imitation or innovative imitation, they are able to grow into leading brands. For example, Xiaomi was once regarded as a former *shanzhai* product that imitated the iPhone (Walsh, 2016), but has since grown to be among the top *Fortune Global 500* companies. Similarly, LiNing Sports, once considered to be a copycat of both Adidas's and Nike's during 1990s, now has a sales revenue that reached 62 billion yuan in 2019 (Luo et al., 2011). It would be impossible for counterfeit manufacturers to pursue such a dream in the same way *shanzhai* manufacturers can.

10.3 Why Do Consumers Choose *Shanzhai* Products over Counterfeits?

One of the strongest competitive advantages of *shanzhai* products is their excellent price/quality ratio (Qin et al., 2018, 2019). Several customers we interviewed in China mentioned that they bought *shanzhai* products because the price/quality ratio was much better than those of the original products they imitated. Consumers in

developing countries cannot afford many of the global leading brands but have similar needs to those who can. Even when they are aware of the lower quality *shanzhai* products compared to original leading brands, they opted to buy *shanzhai* due to their lower prices. For example, in China, the “Dibea” (see Fig. 10.2) cordless stick vacuum’s price is only one-fifth of Dyson’s in Taobao e-commerce platform (Tmall, 2021), despite the function of the two products being similar.

Besides the monetary factor, Qin et al. (2018, 2019) also proposed that functional values, social values, and individual values drive consumers to intentionally purchase *shanzhai* and counterfeit products differently (see Fig. 10.3). Specifically, functional values represent a product’s functional benefits such as its quality, durability, and reliability (Sheth et al., 1991). *Shanzhai* products that provided similar product functions accompanied by a relatively lower price can well satisfy middle- and low-end consumers’ desires. Besides, consumer characteristics and attitudinal functions also drive their purchase intention. For example, consumers who are functional consciousness (a proneness to seek functional benefits when shopping) and have strong attitudes towards product utilitarian function (a pursuit of maximizing reward and minimizing punishment) of their purchasing choices are more likely to choose *shanzhai* products instead of counterfeit products (Qin et al., 2019).

Social values reflect the extent to which consumers are conscious of their choices and seeking status when shopping (Shukla, 2010). Consumers who value social status and care about enhancing and maintaining face in social settings, will be less likely to choose *shanzhai* products compared to counterfeits (Qin et al., 2018, 2019). The reason is because *shanzhai* products often only hold product functional and economic values yet without intangible branding benefits, such as prestige, status, and symbolic devices, thus cannot well satisfy consumers’ desire for status and

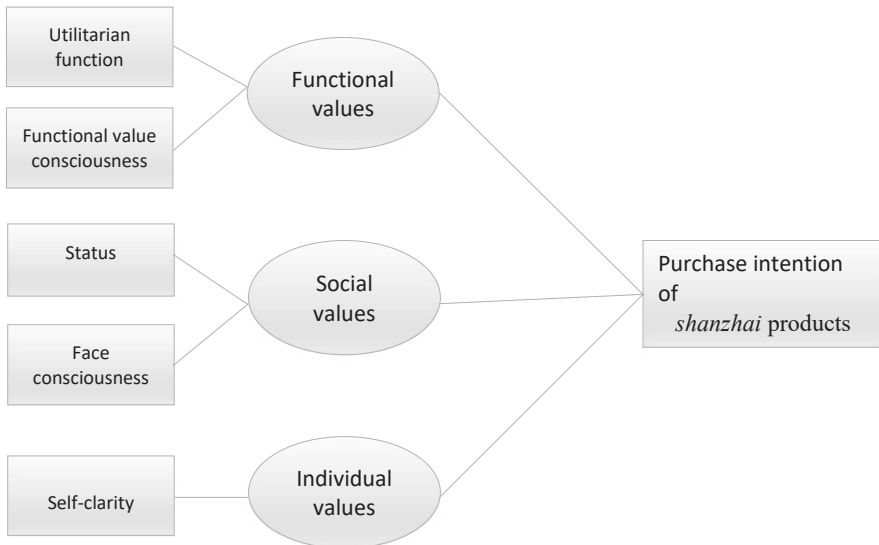


Fig. 10.3 Purchasing drivers of *shanzhai* and counterfeit products. (Source: Qin et al., 2019)

face. Individual values such as self-clarity refer to the extent to which consumers have a clear sense of themselves (Campbell et al., 1996). People with high self-clarity are less likely to use branding consumption for the identification of their own. Similarly, Qin et al. (2019) empirically proved that *shanzhai* buyers have a clearer sense of self than counterfeit buyers do.

10.4 *The Shanzhai Business Model*

The *shanzhai* phenomenon is not unique to China. Besides the Chinese market, other emerging economies (e.g., Thailand, India) have witnessed a variety of *shanzhai* products in local markets. Some of them are ambitious in evolving into competitive local and even global brands through a combination of imitation and innovation. In fact, many companies in the late-developing economies, particularly Japan and South Korea caught up with the Western industrialized nations by initially copying leading global brands. These Japanese and South Korean players have eventually leapfrogged to the frontier of technological innovation (Kim, 1997). For example, the Japanese automotive brand Toyota copied the design of the Chrysler Airflow in 1935, yet has evolved into the biggest car company in the world (Toyoland, 2018). Similarly, the South Korean car brand Kia Amanti (a sub-brand under Hyundai) copied Mercedes E-Class W210's design in 2010, and has become a very reputable car brand worldwide (Flynn, 2018). Tencent QQ, originally called OICQ, copied ICQ (a messenger platform that developed by an Israeli company in 1996) in later 1999, has grown into a huge multi-functional platform (e.g., online music, game, shopping, and other services) with more than 899 million accounts in 2016 (Wikipedia, 2021). Table 10.2 summarized these typical successful *shanzhai* cases in Asia.

Shanzhai businesses challenge the position of original brands through their astonishing development and the speed of their expansion in emerging economies, yet only a few of *shanzhai* producers are able to continuously sustain and generate profit. For example, more than 80% of *shanzhai* cellphone companies have closed their factories due to fierce competition. Successful *shanzhai* companies need to be adaptable and often possess fast production speed, cost advantages, and absorptive or innovative abilities (Luo et al., 2011). After starting with non-innovative *shanzhai* (i.e., pure imitations), successful *shanzhai* companies upgrade their R&D capabilities to move up into producing innovative *shanzhai* (i.e., innovative imitation), and finally move away from *shanzhai* to become independent and innovative companies (Luo et al., 2011; Tse et al., 2009).

Therefore, the *shanzhai* business model seems to be an effective strategy that could be used by companies in emerging economies during the early development stages. Although *shanzhai* are prevalent, each *shanzhai* company is different. We argue that there are three core characteristics of the *shanzhai* business model: BoP (Bottom of Pyramid) orientated value propositions, value network restructuring, and innovation capabilities (see Fig. 10.4).

Table 10.2 *Shanzhai* cases

<i>Shanzhai</i> cases	Later development
<ul style="list-style-type: none"> • Toyota A1 copied the design of Chrysler Airflow in 1935 (Toyoland, 2018) 	Toyota became the largest car company worldwide.
<ul style="list-style-type: none"> • Kia Amanti (a brand under Hyundai) copied Mercedes E-Class W210's design in 2010 (Flynn, 2018) 	Hyundai motors is one of the top six automobile companies in the world.
<ul style="list-style-type: none"> • Tencent QQ copied ICQ in 1999 (Wikipedia, 2021) 	Tencent market value reached \$511 billion in 2019, making it one of most valuable companies in the world.
<ul style="list-style-type: none"> • Xiaomi copied Apple iPhone in 2010 (Walsh, 2016) 	Xiaomi listed in the Hong Kong exchange market on July 9, 2018, eventually becoming the world's leading mobile phone brand.
<ul style="list-style-type: none"> • Pinduoduo (e-commerce platform) was famous for selling a variety of <i>shanzhai</i> products (Caifu, 2019) 	Pinduoduo's market value surpassed Baidu and Jingdong, becoming the fifth largest listed internet company in China in 2019.
<ul style="list-style-type: none"> • Miniso copied Daiso's business model, Muji's store design, and Uniqlo's logo design (Hong, 2020) 	Miniso opened more than 3600 stores in 86 countries, the sales revenue reached 17 billion yuan in 2019.

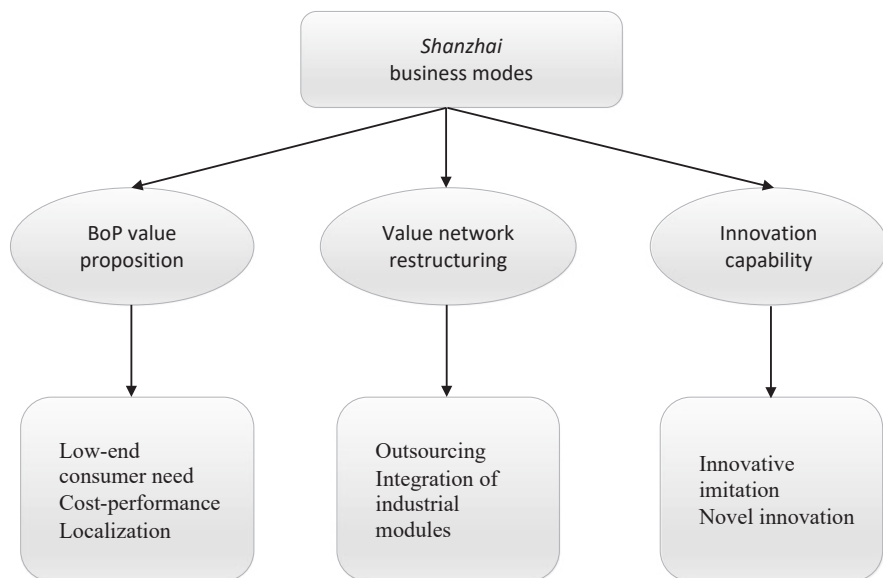


Fig. 10.4 *Shanzhai* business models

1. **BoP (Bottom of the Pyramid) orientated value proposition:** High-end consumers in developed economies often have strong brand knowledge and brand preference. Yet, billions of people are now living at the bottom of the pyramid (BoP), and this market holds huge business opportunities (Prahalad & Hart, 2002). *Shanzhai* manufacturers target middle and low-end consumers, seeking

mass-production for the BoP markets (Zhou et al., 2012). They focus on controlling costs to produce low-priced high-quality products and providing localized product functions. By satisfying the needs of mass-market consumers in developing economies, *shanzhai* manufacturers devote themselves to providing new proposition of value for the BoP groups (Hu et al., 2011; Zhou et al., 2012).

2. **Value network restructuring:** *Shanzhai* manufacturers construct a unique value network by restructuring existing industrial clusters to gather necessary materials and resources (Luo et al., 2011). *Shanzhai* manufacturers do not need to be proficient in all parts of the production process, but only have to give a full play to the modules in which they have a competitive advantage (Hu et al., 2011). In the *shanzhai* value network, upstream and downstream enterprises co-create a complete supply chain and a dynamic *shanzhai* industry ecosystem (Zhou et al., 2012), which ensures a very low cost and nurtures an innovative culture.
3. **Innovation capability:** *Shanzhai* manufactures that want to maintain and develop their business, without exception, have to build and sustain innovation capabilities. Luo et al. (2011) argued that the development of *shanzhai* enterprises often experiences three stages: a duplicative imitation stage, an innovative imitation stage, and a novel innovation stage. In the first stage, many manufacturers (e.g., cases in Table 10.2) in emerging economies adopt duplicative imitation strategies to establish their initial business. Once they can survive in the market, they will try to enlarge market shares and enrich product lines through adaptive and creative imitation, thus entering the second stage. As they further mature, they will enter the novel innovation stage by accelerating their R&D to catch up the market leaders.

In this section, we discussed how the *shanzhai* model could be an effective strategy for emerging market players. Should the original brands passively sit around and tolerate these *shanzhai* products? The next section is dedicated to the examination of several possible solutions for the original brands to counter the threat of *shanzhai* products.

10.5 Strategies to Combat *Shanzhai* Products

Shanzhai products undoubtedly challenge the profitability and survival of the original brands. Emerging economies are more willing to turn a blind eye and let *shanzhai* products blatantly copy the original brands' design and function (Deephouse & Suchman, 2008). More seriously, some governments even block the entrance of original brands to subtly support indigenous companies that copy and even overtake the originals (Vague, 2019; Zucchi, 2019). Under such an ambiguous IPR environment, the public will naturally embrace *shanzhai* products. For example, consumers in China never think of Xiaomi as a former *shanzhai* company, and even carry a strong sense of national pride towards Xiaomi because of its huge success in both local and global markets. Therefore, fighting the threat of *shanzhai* is never going to

be easy. However, pinning one's hopes on IPR and the public's ethics seems to be a useless endeavor. Instead, we propose the following possible solutions for the original brands to counter the *shanzhai* challenge.

- 1. Strengthen brand prestige and build brand community:** Consumers buy products not only for their utilities and functions, but also to pursue intangible benefits such as social and individual values. Successful original brands could further strengthen brand prestige by building brand community, increasing brand and customer online/offline interaction, etc. An attitudinal attachment and a sense of belonging could effectively keep customer loyalty and pull target customers away from the attractiveness of *shanzhai*. For example, although there are several *shanzhai* of Starbucks in the Chinese market, Starbucks itself opened roughly 4000 shops across 140 cities in China. More than 10 million Chinese fans have joined Starbucks' Rewards Membership Club (Xinhua, 2020). A similar example is LEGO, which has been copied by countless *shanzhai*, and yet has never been surpassed in popularity in China. The LEGO brand's community has tightly connected LEGO fans globally. Such engagement with fans continuously strengthens LEGO's brand image, and LEGO fans help to combat *shanzhai* of LEGO (Thita, 2019).
- 2. Launch entry-level product lines in BoP markets:** The most competitive advantage of *shanzhai* products is their good price/quality ratio. By targeting low-end markets, *shanzhai* cater well to the interest of low-income consumers. Original leading brands could consider launching low-priced entry-level products to compete in low-end markets. For example, the Italian fashion company Armani launched entry-level Armani Jeans, which successfully captured young consumers. Similarly, Mercedes-Benz C-Class has since become the best-selling luxury car in the Chinese market (JingDaily, 2010).
- 3. Acquire innovative *shanzhai* products and service providers:** Seeking legal support and protection is unlikely an effective option for the original brands in emerging economies. To effectively and efficiently combat the challenge of *shanzhai* products, the original brands could seek acquisition of the *shanzhai* brands. For example, the Japanese stationery Kokuyo acquired the *shanzhai* stationery "Gambol" in China, which helped Kokuyo enlarge its market channels and gain more local consumers' interests (Sun, 2011).
- 4. Obtain innovative ideas through reverse innovation:** The fierce competition within the *shanzhai* value network also promotes the emergence of genuinely innovative ideas. Many innovative *shanzhai* manufacturers continuously optimize product performance through adaptive and creative solutions. Some of them even progressed into the novel innovation stage. Therefore, the original brands could reversely "borrow" *shanzhai* products' innovative ideas in optimizing the original product's features or generating new competing products. Multinational companies can take advantage of multinational operations to give full play to such reverse innovation from all emerging economies. For example, the Swiss computer peripherals brand Logitech found that a Chinese mouse brand Rapoo had a remote control function, which allowed consumers to control

both their television and their computers (Trimble, 2012). Such a humble function solved local consumers' needs because they often connected their computer with their television to watch Internet shows. Logitech would be well advised to consider adding a similar remote control function to their products to compete with Rapoo in the Chinese market.

10.6 Conclusion

Due to the different economic, social, and regulatory conditions, *shanzhai* products are widespread in emerging economies. Numerous *shanzhai* manufacturers made their "first bucket of gold" by rapidly imitating leading brands, some of them have even become well-known brands. Against this background, this study has attempted to propose a *shanzhai* consumption theoretical framework. We introduced the definition of *shanzhai* products, and then explained the motivation of consumers to purchase *shanzhai* products. Next, we discussed the business models of *shanzhai* manufacturers. Finally, we summarized the possible strategies for combating the *shanzhai* challenge. Although *shanzhai* was criticized for infringing intellectual property, a large number of consumers enjoy the good value of lower price and fine quality *shanzhai* products. *Shanzhai manufacturers'* unique capabilities (imitative innovation capability, value network restructuring capability) accompanied by the special external conditions (e.g., industrial cluster system, weak IPR, huge middle- and low-end market needs) will make *shanzhai* continuously possess competitive advantage (e.g., cost advantage, channel advantage, flexibility advantage, speed advantage).

Shanzhai might plagiarize the original brands' intellectual property. Yet, the variations in the legal system on IPR means that the social acceptance and tolerance towards *shanzhai* products differs from place to place (Luo et al., 2011; Tse et al., 2009). As a low-entry barrier and low-cost business model, *shanzhai* that target the "Bottom of the Pyramid" seems to be using an effective strategy that could be borrowed by start-ups in emerging economies. People who support *shanzhai* even argue that *shanzhai* business model could help to alleviate poverty and break monopoly. However, the *shanzhai* strategy may not be suitable for companies in developed economies, and consumers there may dislike and reject *shanzhai* products.

Besides the IPR issue, the country-of-origin (COO) effect may also make people reject *shanzhai* products. Previous COO research indicated that consumers in rich countries are generally unfavorable to products made in developing countries (Cordell, 1992; Magnusson et al., 2019). For example, Agarwal et al. (2002) found that American and Canadian consumers often feel less trusting and less positively towards Mexican products. Therefore, *shanzhai* products labeled as "made in China" may face the challenge of a negative COO effect, and the prevalence of *shanzhai* will further harm the reputation of the "made in China" products (Li, 2009).

Along this line, it may be worthwhile to further examine *shanzhai* products from different socio-cultures in the future. Accordingly, in another unpublished work that we are working on, we found that consumer power distance belief decreases the consumption of *shanzhai* products. Besides, a consumer's thinking style (holistic vs. analytic thinking) may also influence their perception of *shanzhai*. For example, we predicted that people with a holistic thinking style may be more accepting towards *shanzhai* than people with an analytic thinking style. In the next stage, we will explore the *shanzhai* phenomenon from a cross-cultural perspective.

Finally, we believe that *shanzhai* phenomenon will not diminish. Fiercer competition, along with the huge BoP market fortunes and opportunities, means that the *shanzhai* business will continue to flourish. *Shanzhai* are challenging global leading brands' leadership. We hope our work can serve to attract the attention of the original global brands and encourage them to actively defend against the threat of the *shanzhai* products instead of passively wishing for them to fade away.

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Chapter 11

Successful MNC CSR Activities in Asia: A Case Study of Samsung Electro-Mechanics, Thailand Co., LTD.



Na Na Jeon and Sang Hoon Nam

11.1 Introduction

As the world of business has become increasingly borderless, multinational corporations (MNCs) are pressured to break out of their comfort zones to compete for new and emerging business opportunities elsewhere. Despite being armed with superior brand power, technology, and management skills, not all MNCs successfully establish themselves in their new markets. Making economic contributions to the host country, while a necessary condition, is nevertheless often insufficient in sustaining the survival and success of the MNC. The MNC has an increased chance for survival and success if it is perceived as a responsible corporate citizen who will not exploit the host country.

Achieving a favorable reputation is a daunting, if not impossible, challenge for a foreign company that often face skepticism from the local stakeholders. As Godfrey, Hatch, and Hansen suggest, and our case study supports, there is a clear correlation between “doing good” and “doing well” (2010: 320). Or more precisely in the case of Samsung Electro-Mechanics, Thailand Co., LTD (SEMTHAI), doing well seems to be a function of doing good. Corporate social responsibility (CSR) activities that are authentic and adapted to the local stakeholders’ interests and societal needs will assist in refuting the skepticism and suspicion of the MNCs in the host country. As we examine this hypothesis, we employ McWilliams and Siegel’s definition of CSR activities: “actions that appear to further some social good, beyond the interests of the firm and that which is required by the law” (2001: 117).

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Although CSR has been studied extensively in management literature, most of the research has focused on CSR in a corporation's domestic market. Little is known about CSR of MNCs taking place in different cultures, let alone in Asia (Rodrigues & Child, 2003). The debate over the strategic choice for MNCs between CSR centralization and localization in the new market remains inconclusive (Muller, 2006; Yang & Rivers, 2009). Despite the growing recognition that CSR orientation and management should be adapted to cultural differences (Yang & Rivers, 2009), there is a paucity of empirical research on CSR localization. This chapter, therefore, aims to contribute to the growing research by presenting a case study of SEMTHAI with a focus on its authentic and successfully localized CSR activities.

Given the increasing numbers of MNCs investing in the emerging markets in Asia, the successful establishment and operation of SEMTHAI deserves close attention. This MNC in Thailand has earned a great deal of recognition and numerous awards from the Thai government and society, despite being a business-to-business (B2B) entity. SEMTHAI first differentiated itself from other MNCs by regularly conducting CSR activities that involved local and expatriate employees' participation. SEMTHAI also truly localized its CSR activities by not only specifically addressing the immediate needs and values of Thai society, but also further utilizing their local employees as the main driving force behind their CSR localization. SEMTHAI quickly earned its recognition and became the first foreign company to receive "The Prime Minister Industry Award" from the Thai government in 2009.¹ Since then, SEMTHAI has been benchmarked by many companies in Thailand, both foreign and domestic.

SEMTHAI's outstanding achievements, beyond its operations, can certainly be contributed to its unique and impactful CSR activities. Taking SEMTHAI as a model, we argue that Asian MNCs seeking to successfully establish their reputations (and hence performance) in emerging Asian markets should focus on the power of moral capital, among other things. Moral capital, according to Godfrey, is "the outcome of the process of assessment, evaluation, and imputation by stakeholders and communities of a firm's philanthropic activities" and therefore has the potential to influence the actions of the stakeholders (2005: 783). Moral capital earned by the MNCs' authentic CSR practices, specifically aligned with local values and expectations, could provide effective strategic leverage that would distinguish them from their competitors.

In this chapter, we will first explain why we chose SEMTHAI as the subject of our case study, followed by a section on methodology. We will then analyze the case to identify and examine the potential determinants of SEMTHAI's success. We will conclude our chapter with implications for both researchers and practitioners.

¹"The Prime Minister Industry Award," established in 2003, is presented every year to one enterprise that has previously received at least three Prime Minister Awards. The government evaluates eligible enterprises in six criteria (i.e., the corporation's sales, quality, environment, safety, productivity, and contribution to Thailand) and picks the very best enterprise. This award is thus considered the most honorable award an enterprise can receive in Thailand.

11.2 Why SEMTHAI?

SEMTHAI, a subsidiary of South Korea-based Samsung Electro-Mechanics (SEM), is a manufacturer of electronic components used in computers, cell phones, and LCD TVs (Lee, 2009b). SEM, one of the 16 publicly traded companies belonging to the Samsung Group, was established in 1973 (Naver Encyclopedia, 2019; Naver Encyclopedia, 2020). SEM remains closely related to Samsung Electronics, the flagship company of the Samsung Group. Samsung Electronics is not only one of the largest buyers for SEM, but also the largest shareholder of SEM (K-Biz News, 2019; Naver Encyclopedia, 2019).

SEMTHAI was the very first foreign subsidiary of SEM that was established in 1990 and production began in 1993 with the completion of its first manufacturing plant located within a 50 km radius of Thailand's capital, Bangkok (Naver Encyclopedia, 2019). Since then, SEMTHAI's annual sales increased from less than US \$100 million in 1995 to almost US \$400 million in 2010. SEMTHAI, as a B2B company, did not directly engage with Thai consumers nor did it advertise in Thailand (Lee, 2009b).

SEMTHAI, nevertheless, has established an excellent and respectable reputation in Thailand, winning praise from both the government and the public. When SEMTHAI received the "Prime Minister Award"² for the fifth time in 2009, alongside "The Prime Minister of Industry Award," the Prime Minister at the time, Abhisit Vejjajiva, complimented, "I hope more Korean companies would invest in Thailand. I would always welcome Korean companies like SEMTHAI" (Lee, 2009b). This was one of many compliments the Thai public had showered SEMTHAI with (Hyun, 1998; Kang, 2003; Lee, 2009a, 2009b; Sung, 2003). Apart from winning numerous prestigious awards as a business enterprise in Thailand, SEMTHAI was commended by the Prime Minister as a "good" company that is "helpful to" Thailand (Lee, 2009b). Many local and international companies visited SEMTHAI to benchmark its remarkable success.

SEMTHAI's unprecedented success triggered our curiosity. What made this mid-sized B2B MNC from Korea stand out among the more well-known and established names of American and European MNCs in Thailand? A close examination of SEMTHAI's various activities made it apparent that its unique CSR activities clearly and significantly contributed to SEMTHAI's noteworthy achievements. A former head of SEMTHAI explained its success as follows:

"Thai society's appreciation and recognition of SEMTHAI's good corporate citizenship first led its employees to gain pride in being an employee of SEMTHAI. The pride led the

²The Prime Minister Award is an annual award presented to four different enterprises operating in Thailand, with respect to their excellence in one of the four categories: sales, productivity, quality, and safety and environment. The Thai government evaluates all the local and foreign enterprises in the four categories and picks the best firm in each category to present the annual award to. The Prime Minister Award therefore is recognized as one of the most prestigious awards an enterprise may receive in Thailand and the award-winning enterprises get to represent Thailand by publicly displaying the award logo on its products for the proceeding year.

employees to respect the company and eventually build up loyalty to SEMTHAI. It motivated the employees to work hard for the company, which accordingly improved the company performance. Furthermore, a continued exposure of its good corporate citizenship not only attracted SEMTHAI's current and potential employees by being portrayed as an admirable working environment, but also had led the government officials to notice its contributions" (Roh, 2010).

As SEMTHAI became an excellent example for CSR activities of an East Asian MNC in Southeast Asian markets, SEMTHAI made further efforts to improve its operational performance. SEMTHAI took the initiative to create harmonious employment relations and establish a respectable corporate reputation through practicing CSR at various levels and on various occasions. The loyalty created within SEMTHAI's employees, coupled with the harmonious work environment, assisted SEMTHAI in its efforts to manufacture new products ahead of other companies, improve product quality, and increase productivity—all of which have been recognized by the Thai government with five Prime Minister Awards in productivity, quality, and safety and environment (Roh, 2010).

11.3 Methodology

In the world of international business, unprecedented and unique real-life opportunities and problems often arise, driven by the complexity of its multicultural environment. Existing theories and concepts may not be sufficient enough to explain the new organizational phenomena that MNCs experience. When such is the case, a non-traditional research methodology that can bring a variety of theoretical lenses to build, test, and illustrate a theory is one plausible way of approaching "the black box" (Doz, 2011; Van de Ven, 2007). Because the question of how CSR would affect the survival and performance of an East Asian MNC entering a Southeast Asian country is still insufficiently understood, a qualitative case study seemed to be the most practical and promising method for obtaining a concrete, contextual, and in-depth understanding of the phenomena.

To find the best subject for this case study, we first began our research by collecting general archival data from the literature and the media to identify key issues for CSR of MNCs in Asia. SEMTHAI, with its extraordinary success stories introduced over the years in various media outlets, consequently caught our attention. After designating SEMTHAI as a potential topic of study, a second round of archival data collection took place by contacting SEMTHAI's headquarters, SEM, in Suwon, Korea. We focused our second round of archival research on obtaining information specific to SEMTHAI's history, background, achievements, sales ratio, employee statistics, CSR activities, and performance.³

³These data provided by Samsung Electro-Mechanics (SEM) and SEMTHAI include a public relations DVD produced in Korean and a PowerPoint presentation file including SEMTHAI's general

After we identified specific CSR factors of interest (e.g., duration, frequency, orientation, nature, and effects), we developed a list of potential interviewees, limiting the spectrum to those who were affiliated with or had worked in relation to SEMTHAI. Among the candidates contacted for comments and interviews, those who contributed their insights to this study include a former head of SEMTHAI and four managerial-level male employees of SEM (all of whom were either affiliated with SEMTHAI through their current or former managerial-level experience at SEMTHAI or had experience with SEMTHAI through their work at SEM's Human Resource Center in Korea), as well as a couple of journalists who had published articles on SEMTHAI's achievements. An in-person interview was conducted with the former head of SEMTHAI, focusing on the influence of SEMTHAI's unique CSR activities on its success in Thailand. SEMTHAI's data and individual comments from managers and journalists were collected using email correspondence or phone interviews, primarily with a standardized set of four questions addressing SEMTHAI's CSR activities in relation to its headquarters, SEM, and SEM's other subsidiaries.

It is also important to note that our case analysis primarily centers on our in-depth interview with Seung Hwan Roh, who served as the head of SEMTHAI between 2005 and 2010. Roh proved to be an authoritative primary source and the best candidate for the study because he had not only been with SEMTHAI since its first operation, but he was also the driving force behind the design and implementation of SEMTHAI's CSR. Having spent nearly 20 years with SEMTHAI, Roh earned praise-worthy status as a renowned businessman in Thailand. Through his service and contributions to SEMTHAI and his unique sense of localization for both the company and himself, Roh was widely acknowledged in Thailand as a "Thai-local."

In 2008, Roh became the first Korean entrepreneur ever to receive an honorary doctorate degree in business administration from Thailand's Ramkhamhaeng National University. Roh had been repeatedly complimented by the former Prime Minister, Abhisit Vejjajiva, for his successful management of SEMTHAI (Lee, 2009b; Choi, 2009). His outstanding achievements in the Thai subsidiary also earned him a promotion to an executive position in the company's headquarters in Korea.

11.4 Case Analysis

11.4.1 *The Recognition of SEMTHAI*

Thailand's recognition of SEMTHAI began in 1994 when the Ministry of Industry awarded SEMTHAI the "Best Factory Award" for the first time. Since then, SEMTHAI has received numerous other awards from the Thai government,

information: history, sales ratio, annual number of employees, operating and non-operating activities (i.e., training and CSR), and more.

including “The Prime Minister Industry Award.” SEMTHAI also received the “Prime Minister Award” five times for its excellence in productivity (1995 & 2000), quality (1998 & 2009), and safety and environment (2003).

Notably, SEMTHAI was the very first foreign company to win “The Prime Minister Industry Award” in 2009, the most prestigious award an enterprise could receive from the Thai government. This award recognized SEMTHAI’s outstanding performance, which surpassed all of its competing enterprises. SEMTHAI received the award in recognition of its contributions to Thai society, along with its ongoing efforts to improve productivity, quality, and working environment. The Thai government also officially recognized SEMTHAI’s with numerous other awards, including the “Best Company of Social Contribution Award” in 1998. SEMTHAI was the very first foreign company ever to receive the Social Contribution Award (Hyun, 1998). Between 2001 and 2003, SEMTHAI received the “Company of Social Contribution Award” 3 years in a row, along with the “Exemplary Company of Social Purification Award” in 2003 (Kang, 2003).

SEMTHAI remained persistent with its efforts to return to Thai society what SEMTHAI that which the corporation had earned from. SEMTHAI even managed to improve the public’s general impression of Korean companies in Thailand through its numerous awards, along with the media exposure that followed. Moreover, SEMTHAI earned an unexpected reputational advantage over other competing nominees for the Prime Minister Awards through its unique CSR activities. Most of SEMTHAI’s awards were granted because its rigorous and persistent CSR activities differentiated it from other corporations. This gave SEMTHAI an added advantage beyond establishing its respectable status in the Thai community (Roh, 2010).

11.4.2 The Original Purpose of CSR Activities

Although SEMTHAI had little experience in CSR, SEMTHAI boldly utilized its inexperience as an opportunity to take a distinctive yet authentic approach. For instance, SEMTHAI initially geared its CSR activities toward a unique motive to create a sense of cohesiveness among its local employees. This was especially important for SEMTHAI because the majority of its local employees consisted of individuals who had left their homes to work at SEMTHAI. Most of SEMTHAI’s employees were from rural areas and were living alone near the plant. Consequently, many of SEMTHAI’s local employees spent most of their time alone. They often did not interact with the local community or one another, let alone enjoy an active social life. Naturally, the employees felt lonely, having little connection with fellow workers and the company. There was also a lack of connection to the Korean expatriates. SEMTHAI therefore decided to employ CSR activities as team building opportunities to create a sense of belonging, concord, and cohesiveness among the local employees and with the company (i.e., create a harmonious organizational climate).

SEMTHAI's CSR practices therefore became significantly unique: local employee-centered and action-oriented CSR activities that served the marginalized local communities in need on a regular basis. SEMTHAI's consistent engagement in CSR activities began with volunteering at a nursing home for the severely disabled and teaching at the Watapanki primary school located in one of the poorest rural towns in Thailand. SEMTHAI's attempts to regularly engage its employees first-hand and provide help to those who were ignored and abandoned, even by their own family members, eventually caught the attention of Thai society.

11.4.3 The Persistence of CSR Activities

SEMTHAI's unique philanthropic engagement was further recognized as exceptional because Thailand's cultural expectations of social responsibility or contribution barely existed at the time. The generally recognized form of social responsibility practiced in Thailand in the early 1990s was the royal family's contributions to Thai society. Therefore, SEMTHAI's unique and persistent contributions, despite it being a foreign company, escalated Thai society's appreciation for SEMTHAI and its employees, who consistently carried out the altruistic CSR activities. Naturally, SEMTHAI's CSR activities significantly improved SEMTHAI's reputation among Thai citizens, which in turn increased employee pride in the company.

Over the span of nearly two decades (i.e., early 1990s to 2010), "persistent efforts to contribute back to Thai society" became one of SEMTHAI's signature characteristics. SEMTHAI's altruism became imprinted into its unique policy about social services. SEMTHAI's CSR activities were regularly practiced, local employee-centered (from planning to execution and evaluation), and aligned with the local community's needs and values. SEMTHAI localized its CSR practices so that the ethical values underlying the activities matched the ethical values of the focal community. This match effectively increased SEMTHAI's moral capital.

11.4.4 The Moral Capital and Localization of CSR Activities

SEMTHAI is living proof that demonstrates how CSR, if managed well, can benefit both communities and the corporations. The core idea of CSR is that business and society be bound by a reciprocal social contract (Amba-Rao, 1993). There have been increasing expectations from society for corporations to return some of their profits back to the communities from which they originated (Bartlett et al., 2006). Nevertheless, MNCs' philanthropic activities are able to create positive moral capital only to the degree of consistency between the "ethical values underlying the activity" and the "ethical values of the focal community" (Godfrey, 2005: 793). Consequently, MNCs in foreign markets encounter a barrier with their CSR activities, despite their good intentions, because local communities, especially those in

developing countries, are “either unwilling or unable to represent [their] interest to the MNCs unlike the powerful communities in the developed nations” (Amba-Rao, 1993: 563).

SEMTHAI's CSR activities were clearly localized: centered around local employees to directly address the local communities' needs and values, to meet the interests of the local community, and to match the local community's values. The resulting positive moral capital was a significant bonus that enabled SEMTHAI to earn recognition not only from its employees, but also from the broader community.

The two most significant CSR activities that enabled SEMTHAI to accrue moral capital were monthly visits to the nursing home for the disabled and the less-privileged primary schools, which began in 1995 (Kim, 2007; Lee, 2009b; Sung, 2003). During these visits, SEMTHAI's employees spent time caring for the home's residents and teaching and playing with the children. SEMTHAI's employees were given the chance to share their time, money, and skills with the less-privileged individuals of Thai society while developing personal relationships among employees and with the Korean expatriates during these monthly CSR activities.

SEMTHAI also actively engaged in efforts to stop the spread of AIDS and drug misuse in the community through various campaigns. As part of these campaigns, SEMTHAI provided educational programs to raise children's awareness against drugs and AIDS and also added a “Drug and AIDS” category under the company's physical examination for current and future employees. These campaigns further enabled SEMTHAI to present a positive message to its potential employees and increase its attractiveness beyond its already positive reputation that had been established through its various CSR activities.

SEMTHAI's monthly community service opportunities further enabled its employees to practice its corporate philosophy of returning valuable contributions to society. Beyond establishing a highly regarded reputation in Thailand, SEMTHAI's corporate philosophy of giving back also improved the attitudes of its local employees toward the corporation. Another former head of SEMTHAI said, “SEMTHAI's social service activities help out in increasing local employees' pride in the company and assists in harmonizing the relationship between the labor and the management” (Sung, 2003). SEMTHAI was further recognized as the most admired workplace for Thai employees in 2003. SEMTHAI's altruism clearly achieved an added economic value of having a positive influence on its employees, which led to improved productivity and reinforced retention.

In addition to the regularly conducted CSR activities, SEMTHAI also created special occasions to solidify its altruistic image. For example, SEMTHAI held the “Year of Celebration for Volunteer Work” campaign in 2003. The campaign included 15 different social service programs every month along with the “Samsung Marathon for the People in Need,” a town library construction, providing medical services in underprivileged regions, and providing scholarships to local schools (i.e., Watapanki primary school and Burpa College) (Kang, 2003; Sung, 2003). Considering the variety and extent of SEMTHAI's CSR activities, which focused on being a good Samaritan for the local communities in need, it is no surprise that SEMTHAI's altruistic deeds were publicly recognized twice in 2003 for their social contributions (Kang, 2003).

During the 2005 South Asian tsunami disaster that impacted southern Thailand, SEMTHAI sought and received additional assistance from Korea. Samsung Medical Center in Korea, an affiliate of Samsung Group, dispatched an emergency medical team at the request of SEMTHAI. Along with the Korean medical team, SEMTHAI also sent a group of approximately 200 executives and employees on a 20-hour long journey to help restore the tsunami-impacted sites for 3 days. This level of commitment clearly differentiated SEMTHAI from most of the other companies that primarily assisted Thailand by simply providing relief supplies and financial donations.

11.4.5 The Effects of CSR Activities on Employees

The literature on CSR's impact on HR and performance also accounts for SEMTHAI's classification as a business phenomenon. Social identity theory states that the organization for which an individual works forms the basis of social category classification of the self; and such categorical social membership further influences an individual's self-concept (Turban & Greening, 1997). Consequently, CSR activities that represent a company's behavior to the public become, at least partially, responsible for the employees' perception of self-identity. Thus, the anticipated economic benefits of CSR activities include CSR's positive impact on the corporation's employees, which in turn improves employee productivity and reinforces employee retention based on appreciation for and affiliation with the positively behaving company (Lev et al., 2010).

Moreover, continued exposure to positive organizational climates and interactions with fellow internal stakeholders assists employees in identifying with the corporation and promotes a sense of communion with other internal stakeholders (i.e., coworkers, managers, and expatriates) (Cruz & Pedrozo, 2009). This relational identification further enables employees to obtain satisfaction from the specific affiliation, which becomes only stronger when the organization continuously presents a positive image within the local community to which the employees belong (Judge et al., 2001; Walsh et al., 2003).

The high level of organizational citizenship behavior and productivity displayed by SEMTHAI's employees may be explained by Leung: "behaviors carried out by individuals at work that are discretionary in nature and are not formally rewarded or sanctioned by the organization" promote organizational efficiency, innovativeness, and competitive advantage (2008: 43). This is likely because employees' behavior within an entity is influenced by the "gratification or prosperity that the employees get from their job," such as contentment or a sense of meaning from the job they do with and within the company (Eskildsen & Nussler, 200: 582). Employee satisfaction thus produces employee loyalty, which invites positive behavior and contributes to improved performance (Duboff & Heaton, 1999; Eskildsen & Nussler, 2000). Additionally, employees endorsing high levels of ethical climate have the potential to exhibit greater levels of citizenship behavior (Leung, 2008).

SEMTHAI's strong commitment to altruism further inspired managers and employees at other affiliates of Samsung Business Group. They made voluntary financial donations, which became the seed money for the establishment of the "Samsung Community Center of Hope, Thailand" in one of the regions struck by the tsunami, Phan-Na. It was designed to function as a center for education, information sharing, and socializing—including serving as a nursing home for elders (Kim, 2007; Roh, 2010). SEMTHAI's voluntary CSR activities reinforced its positive, caring, and altruistic reputation, which, over time, was shared and supported by all of its internal stakeholders.

11.4.6 Summary

SEMTHAI's persistent efforts to actively contribute to Thailand's social services had paid SEMTHAI back handsomely. SEMTHAI's CSR not only increased local employees' loyalty to and pride in the company, but it further helped the company earn recognition for being the most successful MNC in Thailand (Roh, 2010). More importantly, SEMTHAI's positive reputation also improved the general impression of Korea in Thailand, which enabled SEMTHAI to achieve "reverse-localization" among its employees. In 2008 alone, SEMTHAI educated about 170 managerial level Thai employees in both the Korean language and culture, so that they could better understand and participate in Korean corporate culture (Lee, 2009b). SEMTHAI also sponsored its outstanding local employees to travel to Korea and be trained as the "Experts of Korea" after completing courses in Korean language and culture at Kyung Hee University's School of International Studies (Song, 2005). These Thai employees returned back to Thailand at the end of the 9-month long training period to assist in more effectively transferring SEM's corporate culture to its local employees (Song, 2005).

In sum, SEMTHAI's unique CSR approach has brought numerous positive effects for the company, both internally and externally. Within the company, there were improvements in job satisfaction and company loyalty among the employees. The relationship between the Thai employees and their Korean managers became more harmonious. Externally, SEMTHAI enjoyed numerous awards of recognition from the Thai government, as well as incredibly positive publicity in the media. SEMTHAI became a company with an outstanding corporate reputation.

11.5 Discussion

11.5.1 The Power of Moral Capital

SEMTHAI was hailed as "a good company benefiting Thailand" by the Prime Minister himself, who also went on to say that he would welcome more Korean companies like SEMTHAI to invest in Thailand. To a certain extent, SEMTHAI

worked like a civilian diplomat, contributing to improving the relationship between the two countries. The Prime Minister's praise was an extraordinary recognition for a foreign company to receive. It was especially noteworthy because MNCs were often perceived, especially in developing countries, as being fundamentally selfish, opportunistic, and possibly exploitative with no genuine interest in the welfare of the host country (Tavis, 1988; Paz-Vega, 2010).

What was so special about SEMTHAI's CSR? Has SEMTHAI indeed proven the correlation between "doing good" and "doing well" (Godfrey et al., 2010: 320)? We believe so. As we examined the case in depth, we found a few surprising factors about SEMTHAI's unique and authentic CSR, as described above. The biggest surprise, however, was not the idiosyncratic aspects of SEMTHAI's CSR activities, but how powerful an MNC's CSR could be in a developing country in Asia. We expected some positive effects of CSR on SEMTHAI's performance, as suggested in the literature, but the power of SEMTHAI's CSR surpassed our expectations. It was subtle at times and obvious at other times, but overall, the power exercised by the authentic and localized CSR activities was deep, strong, and extensive. SEMTHAI's CSR changed almost everything it came in contact with, from internal and external stakeholders to complete strangers in Thailand's rural areas who may have otherwise never heard of SEMTHAI or Samsung.

Inside the company, the local employees were motivated and empowered as, over time, they became increasingly proud to be affiliated with SEMTHAI. Their motivation, commitment, and loyalty to the company increased. Working together on various CSR projects improved the relationships between the local employees and the Korean expatriate managers, promoting a mutual understanding, interpersonal bonding, and cooperation. The harmonious work environment occupied by motivated employees naturally improved the company's performance. SEMTHAI's annual sales quadrupled in a mere 15 years within their first two decades of operation. This shows that CSR can improve an entity's financial returns, whether it be by creating a bond between the MNC and its stakeholders or by improving the firm's reputation, brand equity, employee relations, and quality of management (Bustamante, 2011; Godfrey et al., 2010; Turban & Greening, 1997; Waddock & Graves, 1997).

Outside the company, the Thai government—likely the most influential external stakeholder for SEMTHAI—was truly impressed by what SEMTHAI had done for the country and wanted to return the favor with whatever support it could offer. The Thai government's commending assessment of SEMTHAI further created an unexpected asset: a relationship-based resource that directly impacted SEMTHAI's performance (Godfrey, 2005; Kobeissi & Damanpour, 2009; Wood & Jones, 1995; Yang & Rivers, 2009). The Thai society, too, was inspired by this medium-sized Korean manufacturer who, in many ways, cared for them even more than their own local companies did. Thus, it was not surprising that a considerable number of Thai nationals mistook SEMTHAI for a Thai company (Lee, 2009b).

Where did SEMTHAI's extraordinary power come from? We argue that SEMTHAI's secret ingredient was the moral capital it created through its authentic and localized CSR activities. SEMTHAI was willing to consistently contribute its resources to help local people in need without expecting anything in return. Such

altruistic morality was not typical of business entities such as MNCs (Amba-Rao, 1993; Tavis, 1988).

SEMTHAI was perceived to genuinely care for people in need. Both the internal and external stakeholders (e.g., local employees, expatriate managers, Thai government, Prime Ministers, and Samsung Group) were inspired by SEMTHAI's selfless acts and good will. They responded enthusiastically with their willingness to support SEMTHAI and its CSR activities in whatever way they could. SEMTHAI undoubtedly tapped a hidden geyser of energy in moral capital.

SEMTHAI's experience also suggests another source of power in moral capital: a halo effect. Once SEMTHAI was seen as a company with strong morality, other areas of their managerial capability became more visible and positively recognized. A company perceived as "good" had an increased chance of being perceived as competent in its managerial capabilities. We believe such a halo effect has the potential to magnify the power of moral capital on MNCs' performance.

From the observations made about SEMTHAI's unique CSR activities contributing to its improved performance and recognition, we suggest the following propositions:

Proposition 1: Moral capital has the power to affect MNC performance positively, more powerfully than usually assumed.

Proposition 2: The more authentic CSR is perceived to be, the more powerful its moral capital becomes.

11.5.2 The Perceived Authenticity of CSR

CSR practices of corporations have become increasingly common. In today's culture of overwhelming media exposure, it is difficult to find a company that does not engage in any kind of CSR activity at all. MNCs create organizational units responsible for CSR, mostly within their public relations (PR) departments. Business entities diligently promote their CSR activities to make sure that their stakeholders will be informed of their "good deeds." The goal is to be perceived as good, or at least not evil. The stakeholders, however, are not so quick to accept the self-portrait the companies try to sell through their CSR activities. Stakeholders basically ask two questions: Is the "good deed" symbolic or substantial? Is the "goodness" intentional or pure? The question about the authenticity of CSR comes down to: is this CSR fake or real?

The concept of authenticity has received increasing research attention lately in management literature, especially in the area of leadership (Walumbwa et al., 2008). Management leadership is often perceived as insincere, dishonest, and unethical (James, 2012; Sutton, 2007). There is often a big gap between what managements say (or pretend) and what they actually do, ultimately destroying trust. Contrastingly, authenticity demonstrated through honesty, genuineness, transparency, and morality acts like a breath of fresh air in management leadership that has been polluted by

images of dishonesty, self-interest, disguise, and sometimes even immorality. The sad truth is that while increasingly informed consumers seek (and demand) authentic business leaders, they are in short supply.

In the same light, stakeholders expect CSR to be authentic. They do not want to see another sleek, but artificial, PR stunt from the company. They instead want CSR carried out with sincerity, honesty, and morality. Inauthentic CSR, like inauthentic leadership, destroys trust. Nevertheless, companies have too often utilized CSR to cover up their unethical behaviors. Consequently, engaging in CSR does not necessarily signal the existence of a moral quality in a company. It has become increasingly harder to trust (or prove) the authenticity of CSR in recent days.

SEMTHAI, on the other hand, gives hope by modeling how CSR authenticity enables MNCs to accrue moral capital. We attribute SEMTHAI's CSR authenticity to three factors: voluntariness, consistency, and distinctiveness. Godfrey et al. (2009) argued that the positive reputational value would be strengthened further if the firm's CSR activities could be perceived (and believed) to be voluntary in nature. The consistency of CSR activities likewise has the potential to increase the economic value (Cruz & Pedrozo, 2009). Consistent or patterned philanthropic activity—portraying truly altruistic commitment continued over time—avoids the appearance of ingratiation by providing counterfactual evidence against the general perception of philanthropic activities being largely “opportunistic or capricious” (Godfrey, 2005: 795). Our case analysis finds that SEMTHAI's CSR clearly demonstrated both authenticity and consistency.

SEMTHAI had no outside pressure or expectation to engage in CSR. Rather, SEMTHAI's CSR was for HR, meant to promote cooperation and team spirit among the diverse members inside the company. Over time, SEMTHAI expanded its CSR activities to address other areas of concerns in Thailand. Its commitment to a “good cause” was escalated and reinforced by the enthusiastic responses from its organizational, local, and national communities. SEMTHAI's long period of commitment clearly indicated that its CSR was genuine—far from being capricious or opportunistic.

SEMTHAI went the extra mile to help those in need whenever opportunities arose. A prime example is SEMTHAI's quick and aggressive response to the huge tsunami in 2005. Aid poured in from both for profit and nonprofit organizations to help people devastated by the disaster, but this aid was mostly in the form of financial donations and materials. SEMTHAI, likewise, made material and financial donations, but also went further, beyond what was normally expected from a foreign company—or any company for that matter.

SEMTHAI sent a large group of organizational members, both local and Korean, to the devastated area to directly assist victims for 3 days in a row. SEMTHAI even arranged a group of medical doctors to be dispatched from Samsung Medical Center in Korea to meet the urgent medical needs of those injured by the natural disaster. SEMTHAI's immediate and direct reaction to the natural disaster-stricken country, accompanied by its extraordinary level of dedication to directly address those in desperate need, distinguished SEMTHAI from all other companies, foreign or local,

whose help was mostly materialistic and indirect. Therefore, we take SEMTHAI's authentic CSR to suggest the following:

Proposition 3a: The perceived authenticity of CSR is positively influenced by voluntariness.

Proposition 3b: The perceived authenticity of CSR is positively influenced by consistency.

Proposition 3c: The perceived authenticity of CSR is positively influenced by distinctiveness.

11.5.3 CSR for HR

SEMTHAI utilized CSR for HR, against the popular practice to employ CSR for PR. MNC subsidiaries often experience various types of HR difficulties, such as low levels of employee motivation, weak organizational commitment, and conflicts between local employees and expatriate managers, just to name a few. SEMTHAI showed how an effective CSR could address these HR-related problems.

SEMTHAI was once chosen as Thailand's "most admired company to work for." It was quite a significant HR achievement for a medium-sized B2B company from Korea. What was SEMTHAI's secret that made it more attractive than the other more prestigious and powerful MNCs from North America and Europe or the well-known local companies?

Companies usually attract potential employees with monetary incentives, job security, and promotional opportunities. There is no doubt that such tangible incentives are important. Yet, SEMTHAI's experience suggests that the morality of a company can work as a more powerful recruiting force than money or other tangible incentives. The Thai people wanted to become a part of a company that did (and had the reputation of doing) something good for Thailand. SEMTHAI's good reputation became a valuable asset that served as a basis for its stakeholders' interactions with SEMTHAI. The Thai people evidently considered "meaning" as a significant factor in their job searches, and SEMTHAI was one of the few companies that offered the chance to satisfy this heightened ethical preference with its strong moral capital.

SEMTHAI also showed that CSR could be effective in increasing employees' motivation and loyalty to the company. The local employees—inspired by SEMTHAI's continued selfless acts benefiting their home country—wanted to become affiliated with the company. The pride and loyalty the local employees felt toward SEMTHAI motivated them to work harder and more harmoniously with others. This, in turn, improved SEMTHAI's overall performance in the long run.

More importantly, CSR activities helped the local employees and the Korean expatriate managers develop a cooperative relationship. Anecdotal evidence suggests that conflicts between local employees and expatriate managers are not uncommon in developing countries, and Korean subsidiaries are no exception (Chung, 2009). But at SEMTHAI, numerous periodical CSR projects provided

natural opportunities for the local employees and the Korean expatriate managers to work together, share the same purpose, and communicate often. The resulting outcome was a deeper mutual understanding and trust. SEMTHAI's case further suggests that cultural differences can become a source of synergy rather than conflict when there is a strong sense of trust between different cultural groups. As such, we take SEMTHAI's harmonious corporate culture achieved by its unique CSR to suggest:

Proposition 4a: MNC's CSR contributes to creating harmonious relationships between expatriate managers and local employees.

Proposition 4b: MNC's CSR contributes to increasing organizational citizenship behavior.

Proposition 4c: MNC's CSR contributes to reducing turnover rates among the local employees.

11.6 CSR's Localization

An online article of the *Chosun Media* indicated that the successful management of SEMTHAI was the result of "promoting localization [of SEMTHAI] through recruiting local employees and encouraging social services" (Lee, 2009b). The article also indicated that the frequent exposure of SEMTHAI's social contributions in the local media led many Thai citizens to believe that SEMTHAI was a Thai corporation. What truly deserves attention here is the extent of SEMTHAI's localization, which surpasses the simple recruitment of local employees. SEMTHAI actively engaged its local employees at all stages of CSR.

The literature suggests that, in order for CSR of MNCs in developing countries to be effective, it should be localized because the cultures of the host country and the MNC's home country could be vastly different (Bustamante, 2011; Godfrey, 2005). The greater the value gap between the MNCs and developing countries, the greater the obstacle becomes in emerging markets that preconceive MNCs as selfish entities entering their market to reap profits at the expense of the local communities and the nation (Paz-Vega, 2010). Localization of CSR, however, is a challenging task for expatriate managers because it requires a deep and meaningful understanding of the local values and culture. Helping the local community requires the ability to identify local problems, prioritize them, understand their root causes, and be able to provide effective solutions. Such complicated tasks require intimate knowledge of the local culture, values, and circumstances—which expatriate managers often lack due to the linguistic and cultural barriers (Paz-Vega, 2010).

Amidst an imperfect understanding of the local community, culture, and values, the effectiveness of MNC's CSR activities may diminish regardless of the good intentions. Therefore, it is important to actively engage those with an intimate understanding of the local culture at every stage of the MNC's CSR activities, from design to execution. This is exactly what SEMTHAI did from the beginning. Local

employees led SEMTHAI's CSR initiatives and the Korean expatriate managers provided support. SEMTHAI's CSR activities were truly localized—local employees planned activities aligned to local values in order to meet local communities' needs in ways that the local people would appreciate. SEMTHAI's CSR was of the local people, by the local people, and for the local people.

The result of SEMTHAI's CSR localization on its employees is clear. It induced a positive image of SEMTHAI, satisfied the employees' sense of belonging, and further fostered their loyalty. The public's recognition of SEMTHAI's moral capital and the loyalty induced by the employees' satisfaction further enhanced individual employee performance and naturally improved overall company performance. SEMTHAI thus provides additional evidence to support Duboff and Heaton's (1999) analysis of over 300 companies that indicated a positive effect of employee loyalty and motivation on shareholder value. SEMTHAI's uniquely localized CSR adds to the argument that there is a positive correlation between employee loyalty and CSR localization.

SEMTHAI's true localization of CSR was undoubtedly responsible for SEMTHAI's success in CSR activities and performance. While we recognize that the local employees' role in SEMTHAI's CSR were absolutely critical, we also suspect that the Korean expatriate managers' input was also invaluable in creating culturally synergistic CSR programs. Localized CSR is good, but synergetic CSR is great. This is what MNCs should aim for when they engage in CSR localization. With that said, we propose the following from our observations of SEMTHAI's successful CSR localization:

Proposition 5: The more localized CSR of MNC is, the more effective it becomes in achieving its desired effects.

Proposition 6: The more actively local employees are involved in CSR, the more effective CSR becomes.

11.6.1 Limitations

One limitation of this study would be the absence of input from SEMTHAI's local employees, especially with regard to the experienced effects of SEMTHAI's CSR activities and the various factors highlighted in this chapter. A few in-depth interviews or at least a customized survey of the local employees would have helped further verify this study's findings. We recognize this limitation with our understanding of the possibility that interview data could be subject to biases.

Another obvious limitation is the generalizability of the findings from a single case study to other companies. Nonetheless, a single case study has proven to be significant with regard to its contribution in combining theoretical and pragmatic aspects of phenomena (Pettigrew, 1990). It is therefore our hope that this case study will shed light on understanding the dynamics and complexity of CSR of Asian MNCs or MNC's CSR in Asia, both of which are a fascinating topic awaiting other scholars' interests.

11.7 Conclusion

In his study of high-performing companies, Jim Collins (2001) differentiated “great” companies from “good” ones. “Greatness” was defined by the firm’s ability to financially perform multiple times better than their competitors for a sustainable period of time. To our knowledge, no attempt has been made to study “great” companies in the area of corporate social performance, especially among MNC subsidiaries in Asia. It is hard to find financially “great” performers, but socially “great” performers are even harder to find. In this study, we attempted to unlock the secret formula that made a Korean MNC a “great” social performer in Thailand.

The concept of CSR originated in the United States and spread to Europe (Heiduk & McCaleb, 2014). As a result, CSR is still a relatively unexplored concept for Asian MNCs. SEMTHAI therefore could have easily imitated the CSR practices of its Western competitors, whose CSR was generally carried out as a business transaction, a PR stunt. Strategically speaking, CSR has long been known to ultimately serve the interest of the firm. The success or effectiveness of CSR continues to be measured by what the firm can get in return in the form of legitimacy or even financial performance. Such transactional CSR may make sense business-wise. Yet, it also creates a philosophical dilemma: the supposedly selfless activities of CSR are fundamentally self-serving for most companies.

SEMTHAI’s CSR was far from being transactional or strategic. SEMTHAI did not expect to get something in return for its efforts to help Thai people in need. SEMTHAI employed CSR as an opportunity for the local employees and Korean expatriate managers to work together for a common and noble cause, while making the world a better place. SEMTHAI did not employ CSR for PR. Sincere appreciation from those who received its help and seeing the world become a better place through its efforts motivated SEMTHAI to continue with its regular and authentic CSR activities over a long period of time.

The selflessness of SEMTHAI inspired both its internal and external stakeholders. The morale of the employees was boosted. The local employees and Korean expatriates enjoyed a harmonious relationship. The Thai government showered SEMTHAI with various awards—for both its CSR and performance. The employees working at SEMTHAI’s sister companies in Korea were inspired by SEMTHAI’s altruistic behavior and joined in SEMTHAI’s selfless cause. In this sense, SEMTHAI’s CSR was more transformational than transactional.

Transformational leadership theory suggests that transformational leaders, in contrast with transactional leaders, inspire people to go beyond their selfish interest. When people are inspired to go beyond their selfish interest for something bigger than themselves, they can perform beyond expectation (Bass & Riggio, 2006). We believe that the extraordinary performance of SEMTHAI was a result of such transformational CSR.

CSR as a strategic choice for MNCs has now been studied for decades. Yet, the debate between CSR localization or centralization persists and the best-practice scenario is yet to be established. Hence, the implications of SEMTHAI’s

transformational CSR seem promising—at least for MNCs headquartered in developed countries trying to enter or survive in emerging markets. The greater the cultural difference between the headquartering and subsidiary nation, the more applicable SEMTHAI's implications will be. After all, the beginning point of SEMTHAI's successful establishment and recognition in Thailand was its authentic CSR to care for those who were abandoned by their own.

The real story of the SEMTHAI case is this: if you want the true force of moral capital to be released, an authentic CSR is your best shot. The ultimate goal of CSR is to transform not just your employees or your company, but the world. When a company is faithful to this spirit, CSR can be more powerful than expected. The case of SEMTHAI is living proof.

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Part IV
International Business Research
and the New Asia

Chapter 12

Key Research Trends and New Research Frontiers in International Business (IB) Scholarship: A Focus on the Asia-Pacific Region



Tatiana Vashchilko and James Agarwal

12.1 Introduction

International business (IB) has been experiencing a phenomenal growth in the Asia-Pacific region (hereinafter APR) over the last two decades, especially in East Asia and Pacific (Fig. Fig. 12.1).

The increasing volumes in IB activities have resulted in a significant increase in academic research on APR as scholars followed the trends of changing business landscape. APR is defined here according to the World Bank's definition of the region with 8 countries in South Asia (SA) sub-region and 38 countries in East Asia and Pacific (EAP) sub-region (World Bank, 2020a).¹ Two APR's sub-regions have 3 low-income economies with per capita income of \$1035 or less, 17 lower-middle-income economies (\$1036–\$4046), 11 upper-middle-income economies (\$4,046 to \$12,535), and 15 high-income economies (\$12,536 or more) (Fig. 12.2).

This chapter addresses two research questions: (1) what are the key research trends in International Business (IB)² scholarship on APR in the 10-year period,

¹The sample of countries is selected based on geography rather than socio-economic development. Even though there are vast differences between advanced countries (Australia and New Zealand) and the rest of the APR region for the most part (Japan, Singapore, Hong Kong as exceptions), IB scholarship studies, inter alia, focus on the impact of socio-economic and political development on IB that requires cross-country heterogeneity. Excluding Australia and New Zealand may result in underestimation of the topics and biased emerging frontiers. Furthermore, these two countries are important members of the regional economic organizations (e.g., ASEAN plus 6). Thus, for the sake of completeness, it was relevant to add these two countries, as well as Pacific Island nations.

²IB subsumes many fields including International Marketing, International Strategy, International HRM/OB, and International Entrepreneurship.

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Fig. 12.1 Foreign direct investment inflows to and exports from Asia-Pacific region, 1960–2019. *Source:* (World Bank, 2020b)

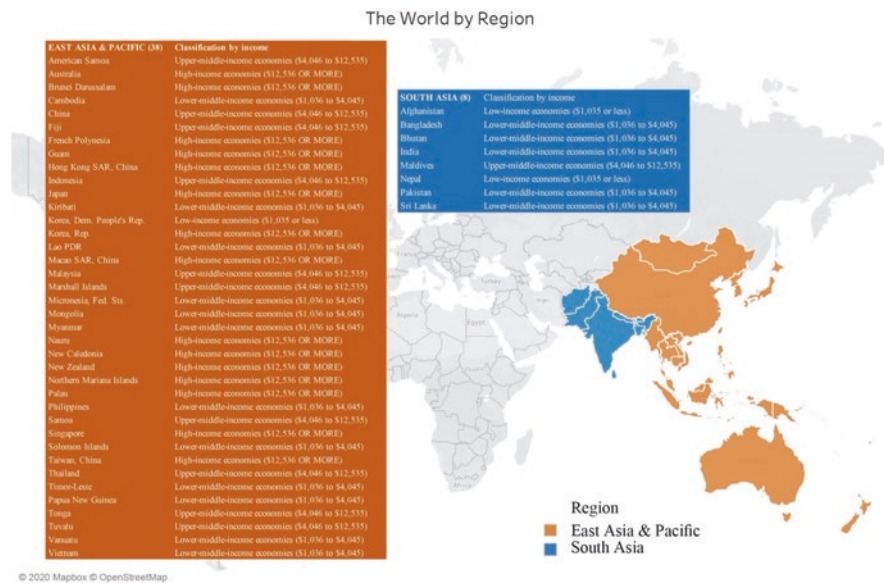


Fig. 12.2 Map of the Asia-Pacific Region with countries classified by sub-region and income per capita (in US dollars). *Source:* (World Bank, 2020b)

2010–2019? And (2) what are the emerging research topics in IB on APR? Ever rising volumes of scientific publications in IB demand novel methods to quickly and accurately identify current and emerging research themes in the scholarship. This is especially relevant for the scholarship related to specific regional contexts, the publications of which tend to be either scattered or, on the contrary, intensely focused due to recent profound economic and socio-political changes in those countries, as in the case of APR. Therefore, this chapter employs bibliographic coupling analysis proven to be especially useful for the identification of research frontiers and emerging research themes from a well-defined set of publications (Boyack & Klavans, 2010).

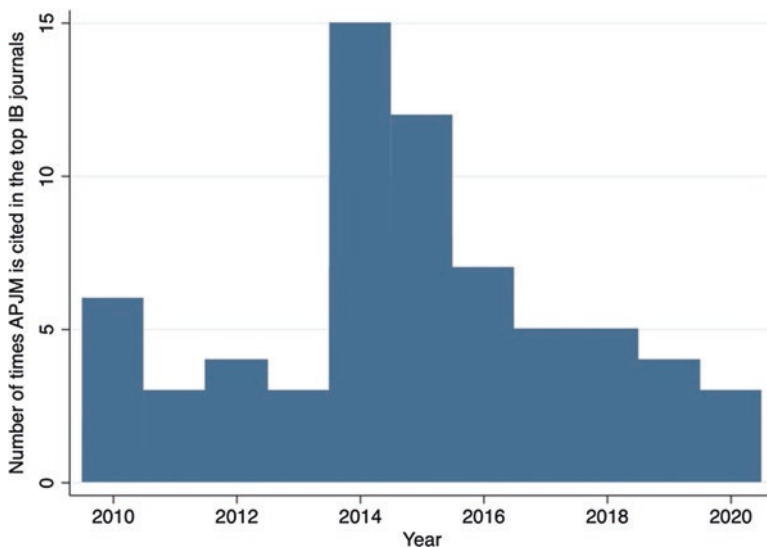


Fig. 12.3 Frequency of citing APJM in APR-related articles published in the top six IB journals, total per year, 2010–2020

To take full advantage of the bibliometric coupling methodology, we use articles published during the 10-year period, 2010–2019, in the top six IB journals (DuBois & Reeb, 2000; Tuselmann et al., 2016),³ namely *Journal of International Business Studies* (JIBS), *Journal of World Business* (JWB), *International Business Review* (IBR), *Management International Review* (MIR), *Journal of International Marketing* (JIM), and *International Marketing Review* (IMR). Even though one of the most highly regarded outlets for Asia-focused research is the *Asia-Pacific Journal of Management* (APJM), this chapter focuses on the identification of APR-related research frontiers in the top IB journals which is the main reason for excluding APJM from our analysis. Furthermore, the use of bibliographic coupling analysis ensures that even though APJM was not directly included in the analysis, the predominant majority of the emerging research topics on APR in IB is identified based on the frequency patterns of the cited references in the top six IB journals including the references to articles published in APJM on identified APR-related topics (Fig. 12.3).⁴

The chapter proceeds as follows. First section reviews prior research on bibliometric analysis for identifying key research trends in an academic field or a

³We selected the traditional “core” IB journals which includes international marketing journals. Recently, four of these journals, i.e., JIBS, JWB, IBR, and MIR were included in the top six IB journals as core IB journals.

⁴The methodological foundation for the identification of the emerging research topics is bibliographic coupling analysis, which identifies the frequency patterns of the cited references that each pair of papers has in common.

discipline. Second section offers a methodological framework to identify and analyze recent research trends in IB and describes the data we use for bibliometric analysis. The third section reports analysis and findings. The fourth section concludes the paper with future research directions.

12.2 Prior Research on Identification of Research Trends

Prior bibliometric research including the one in Management and IB (Tranfield et al., 2003; Zupic & Čater, 2015; Samiee & Chabowski, 2012; Sinkovics, 2016) suggests identifying new research trends through the analysis of “*research fronts*,” which are the clusters of citing papers aggregated on the basis of bibliographic coupling (e.g., Boyack & Klavans, 2010; Upham & Small, 2010; Wei et al., 2018). Bibliographic coupling analysis is a preferred method (Besselaar & Heimeriks, 2006; Boyack & Klavans, 2010; Ho, 2014; Huang & Chang, 2015; Shibata et al., 2009) to comprehensively and accurately identify APR-related research fronts of the last decade in IB scholarship. We use a combination of statistical and bibliometric software to conduct bibliographic coupling analysis along with visualization of the results for their meaningful interpretation (e.g., Waltman et al., 2010).⁵

Bibliographic coupling refers to a situation when a couple of papers cite the same reference (Kessler, 1963), “a single item of reference shared by two papers is defined as a unit of coupling between them” (Jarneving, 2005, p. 247). This makes the two papers that share the same reference to be “bibliographically coupled.” The focus of the bibliographic coupling analysis is on the analysis of the frequencies of shared citations that a couple of papers have in common.

The unit of bibliographic coupling analysis for identification of research fronts is *a paper published in the last 5–10 years in a journal under consideration*, which is often called “a citing paper” or “a publication” even though the analysis is based on the cited references of all citing papers under consideration. The greater the number of such shared cited papers for pairs of publications, the more likely that the cited references of the publications under analysis (1) have become the influential ones; and (2) catalyze specific research areas, whereas the citing papers of these cited references belong to the same research area. Why? If two papers have many cited references in common, then there is a high likelihood that these papers explore closely related research topics.

⁵For example, this chapter uses three softwares, VOSviewer, STATA, and R, as each can offer only some capabilities to analyze research trends in the scholarship. We use Visualization of Similarities (VOS) software or VOSviewer for short, to identify research similarities across publications and the research themes. STATA is used for subsequent analysis of the emerging research time trends. Wordcloud R package deployed to capture the thrust of textual data (keywords) to more meaningfully interpret the relations within and between identified clusters corresponding to the research themes.

To identify and analyze the research fronts in studying specific geographic contexts, we propose an analytical tool, methodological framework to identify context-specific research fronts (Fig. 12.4), which lays out the foundations for a systematic application of bibliographic coupling, content and time trend analysis to a set of papers studying a specific geographic context.

This tool, when applied to the publications focused on examining phenomenon in a particular geographic context, allows us to create a network of bibliographically coupled publications that are clustered by research themes. The content analysis of the papers belonging to each cluster results in the identification of the key research themes associated with each cluster. Subsequent temporal analysis of each cluster's publication frequencies and time trend estimations are the basis for our findings about the research fronts and their changes over time in terms of popularity and research intensity.

12.3 Methodological Framework

The systematic process of applying *methodological framework* (Fig. 12.4) to identify research fronts that have been emerging in IB research on APR includes the following five steps.

1. Identification of the relevant publications in the top six IB journals in the 10-year period, 2010–2019, and then the publications on APR only

The bibliographic data such as “publications” (“citing papers”) and their references (“cited papers”) are from the top six journals in IB: JIBS, JWB, IBR, MIR, JIM, and IMR. We define a “publication” as a research article published in a journal as defined by the Web of Science (WOS), a database we used to extract the data for bibliometric analysis. Among all publications in these six journals

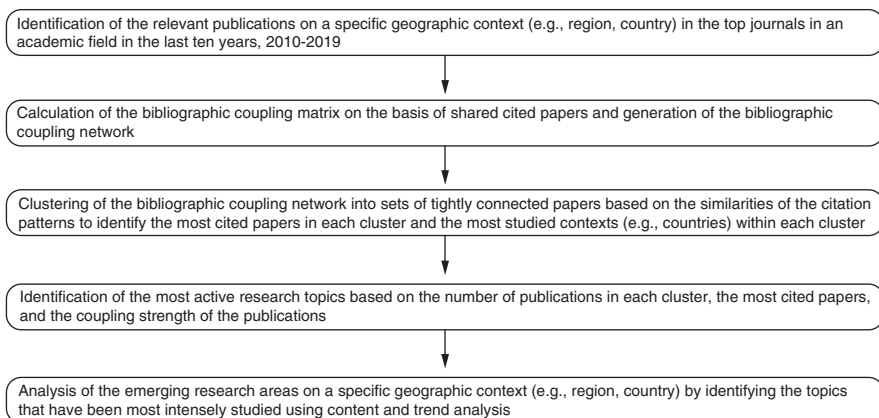


Fig. 12.4 Methodological framework to identify research fronts in a specific geographic context

2. Calculation of the bibliographic coupling matrix on the basis of shared cited papers for each couple of the selected publications and generation of the bibliographic coupling network

For each couple of papers, we calculate the number of the shared cited papers by this pair, which is the “strength of coupling” or coupling strength (Huang & Chang, 2015, p. 2045). If a couple of papers do not have many shared cited references, then the coupling strength is weak. Otherwise, the coupling strength is strong. Then, a bibliographic coupling matrix is built with cells containing the numbers of shared cited papers by each pair of papers, i and j , where i corresponds to rows and j corresponds to columns of the bibliographic coupling matrix. This matrix is the basis for constructing bibliographic coupling network of papers and their subsequent categorization into research topics.

3. Clustering of the bibliographic coupling network into sets of tightly connected papers based on the similarities of the citation patterns with subsequent identification of the most cited papers in each cluster, and the most studied APR countries within each cluster

To evaluate the similarities among the papers, bibliographic coupling method relies on a measure of a coupling strength. *The coupling strength is an indicator of how strong or weak the research similarity is between the two papers.* If a coupling strength is weak, then it means that the two papers have very few cited references in common, and thereby there is a high likelihood that these two papers are addressing less related research topics. The more similar the papers are in terms of the number of shared cited references, the more likely that these papers are written on the related research topic, and the more likely they belong to the same cluster of tightly connected papers. Thus, the publications are clustered based on the similarity of their cited papers: the number of the cited papers that two publications have in common, or, in other words, coupling strength. We use VOSviewer clustering algorithm to generate clusters of tightly coupled papers. Publications tend to have higher research similarity within than outside the cluster. Each cluster corresponds to a research topic, which can be more or less active and either gaining or losing popularity. Then, we identify the most cited papers and the most studied APR countries within each cluster to gauge the cluster’s prominence in studying particular APR countries. That is, to understand the association between specific research topics and particular APR countries.

4. Identification of the most active research topics in the last decade in IB based on (a) the analysis of publications’ keywords to identify a list of research topics associated with the entire set of APR-related publications and each cluster of bibliographically coupled papers; (b) the number of publications and the most cited papers within each cluster (e.g., Wei et al., 2018) to identify the most studied research topics in APR context in 2010–2019 (e.g., Upham & Small, 2010)

To develop an understanding of the research topics within a cluster, we conduct content analysis of the keywords chosen by authors to describe their papers. Assuming that authors strategically choose their papers’ keywords, the content analysis of each cluster’s highly occurring keywords is an established way of

identifying research clusters around themes within an academic discipline (Callon et al., 1983).

VOSviewer's text-mining approach builds on the Apache OpenNLP tool kit for part-of-speech tagging to identify noun phrases (Van Eck & Waltman, 2011) and then determine relevant terms based on how frequently each term co-occurs with other terms (Waltman et al., 2014). Once highly relevant terms are identified, they are grouped together into clusters of keywords that most frequently co-occurred together. These clusters of keywords define the research subtopics for each cluster of bibliographically coupled articles (Van Eck & Waltman, 2011). Visualization of the networks of keywords and other visualization tools for bibliographic analyses is especially useful for studying the structure of an academic field and its dynamics (Borner, 2010; Waltman et al., 2014).

The number of publications within each cluster is indicative of how actively the cluster's research topic is studied, which ultimately depends on the overall interest of scholars in that research topic and the research topic's importance. Each cluster's highly cited publications serve as the basis for identification of main theoretical and methodological foundations associated with that cluster.

5. **Identification of the emerging research areas in IB on APR by identifying those clusters that have increasing numbers of publications over time in the 10-year period** (e.g., Upham & Small, 2010; Wei et al., 2018), **and most tightly connected papers to identify the topics that have been most intensely studied** (Shibata et al., 2009)

The estimated temporal trends of the number of papers published within each cluster in the last decade are used to identify those clusters that have become the emerging research fronts in IB. If the number of papers in a cluster has been growing over time, then the research themes associated with this cluster have been receiving increasing attention within the academic field in the last decade and can be considered as emerging research fronts. Variation in coupling strength within a cluster characterizes the density of the papers belonging to the cluster. The most connected papers represent the most intensely studied research topics.

12.4 Analysis and Findings

12.4.1 *Finding 1: Growing Interest in APR-Related Scholarship Across Time and Academic Disciplines*

Despite temporal fluctuations in the number of selected APR-related articles (Fig. 12.5), the number of papers that cited them has steadily increased over time demonstrating the overall growing interest in the APR-related scholarship published in the top six IB journals. Over the same time period, the total number of times the 984 APR-related articles were cited by other papers across all WOS databases has

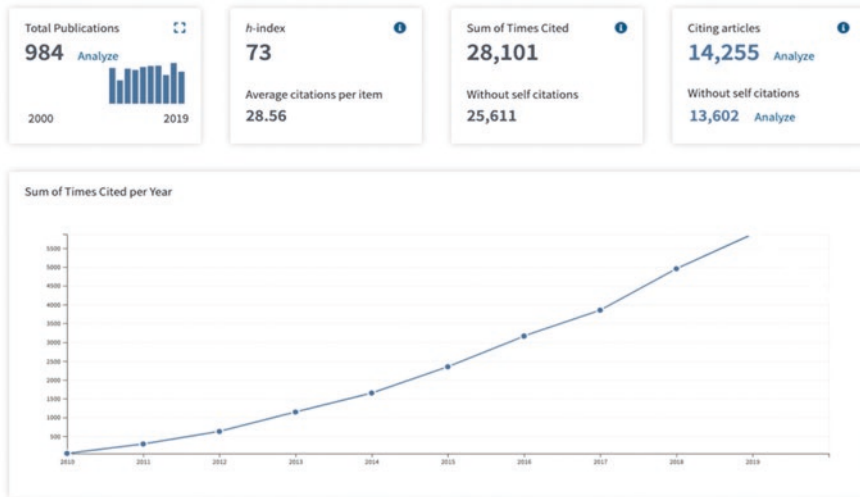


Fig. 12.6 Total number of citations across all WOS databases to the 984 APR-related articles in the top IB journals. *Source:* Web of Science (WOS), July 26, 2020

reached 28,101 (WOS, 2020), and, without “article self-citations” as defined by the WOS, 25,611 papers from within WOS cited at least one of the selected APR-related articles (Fig. 12.6): an article is considered an “article self-citation” if this article is part of the 984 APR set of articles and it cites at least one article from the 984 APR set.

Thus, the average number of citations per selected APR-related article is 28.56, which is calculated as the ratio of 28,101 and 984 ($28,101/984 = 28.55792$). The value of h-index for this set of the 984 APR articles means that 73 out of 984 papers have been cited at least 73 times. However, this number is conditional on the authors’ affiliated University’s WOS product subscriptions across journals and years, which seems to be relatively comprehensive. For the same reason of limitations imposed by the institutional subscriptions, the number of citing articles (14,255) is smaller than the number of “sums of times cited” (28,101) (WOS, 2020) resulting in the number of articles that have cited one or more of the selected 984 APR-related articles being 14,255, of which only 4.58% are article self-citations (Fig. 12.3). These numbers demonstrate that most of the 984 APR-related articles are cited by other than these 984 APR articles, as there is a very small number of self-citations.

Furthermore, the selected APR-related articles have been widely read by scholars from not only business and management, but also other academic disciplines based on the WOS categorization of the academic disciplines and the journals (Fig. 12.7).



Fig. 12.7 Distribution of 14,255 papers that have cited one or more of the 984 APR-related articles across academic fields (WOS categorization) and journals. Source: Web of Science (WOS), July 26, 2020

12.4.2 Finding 2: The Main Research Fronts in IB Scholarship Predominantly Use Qualitative Research and Focus on the Role of Culture, Country of Origin, and Complexity of Context

To identify the research fronts in IB research, we built bibliographic coupling network of all 2813 articles published in the top six IB journals, of which the largest set of connected articles is 2807⁷ and we set the threshold for the minimum number of citations to 0. Then, once we set the minimum threshold on the number of articles in a cluster to 50, these articles formed 11 clusters based on the research similarities of their cited references. These 11 clusters visualized with different colors (Fig. 12.8) and the included table lists the top 10 cited papers for each of the clusters (only the first author’s name is listed).

These clusters correspond to the eleven research fronts across all 2807 publications in top six IB journals that we broadly defined as follows: (1) Culture and qualitative research in IB; (2) Country of origin and complexity of context; (3) Institutional and contingency perspectives with implications for CSR, liability of foreignness and political risks; (4) Capabilities, knowledge management, and international performance; (5) International entrepreneurship and born global firms; (6) Emerging markets and location strategies of MNEs; (7) Headquarter–subsidiary relationships; (8) CSR and sustainability in IB; (9) Emerging market MNEs, outward FDI and the role of government; (10) Entry mode choices; and (11) Determinants of internationalization and internationalization process.

The main goal of the bibliographic coupling analysis is to identify the research fronts and trends based on the similarities of citation patterns of the citing papers (each citing paper is represented by a circle on Fig. 12.8). Some of the 2807 citing papers under analysis have also become well cited, as can be seen by large size of the circle or network node. The number of citations serves as an indicator of a paper’s importance and influence within the field. The top five most cited papers

⁷There is no need to include non-connected publications that have zero links to other papers because bibliographic coupling analysis focuses on the relationships between publications.

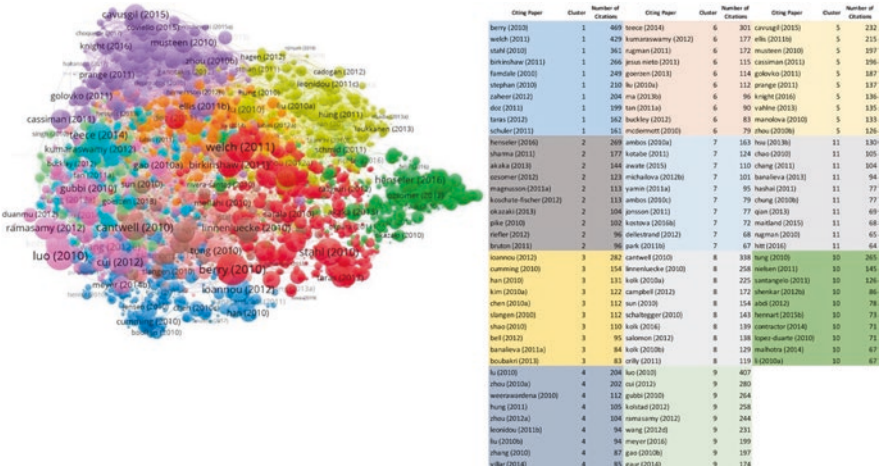


Fig. 12.8 Bibliographic coupling network of 2,807 articles in the top six IB journals and the research fronts based on the top 10 most cited articles in each cluster, 2010–2019. *Source:* WOS (2020)

based on the total number of citations within the network are (1) Berry et al. (2010) on institutional approach to cross-national distance; (2) Welch et al. (2011) on theorizing from case studies; (3) Luo et al. (2010) on how emerging market governments promote outward FDI with a focus on China; (4) Stahl et al. (2010) on meta-analysis of cultural diversity in teams; and (5) Cantwell et al. (2010) on evolutionary approach to understanding multinational business activity.

The top five most cited papers based on the normalized number of citations (Van Eck & Waltman, 2017, p. 32)⁸ are (1) Henseler et al. (2016) on testing measurement invariance of composites using partial least squares; (2) Cavusgil and Knight (2015) on entrepreneurial and capabilities perspective on early and rapid internationalization of born global firms; (3) Teece (2014) on dynamic capabilities-based entrepreneurial theory of the multinational enterprise; (4) Meyer and Peng (2016) on theoretical foundations of emerging economy business research and (5) Welch et al. (2011) on theorizing from case studies.

The distances between the circles in Fig. 12.8 indicate the similarities in the citation patterns of the 2807 citing papers under analysis. If two papers are located in close proximity to each other, then these papers share a larger number of the same cited papers in their reference lists than the papers that are located far from each other. The extreme examples of papers with no or almost no shared cited papers in their reference lists are the papers that are located on the opposite sides of the network in Fig. 12.8. The papers that are tightly linked or “coupled” are not only located in close proximity but also belong to the same cluster.

⁸The normalized number of citations of a document equals the number of citations of the document divided by the average number of citations of all documents published in the same year and included in the data that is provided to VOSviewer. The normalization corrects for the fact that older documents have had more time to receive citations than more recent documents.

12.4.3 Finding 3: The Main Research Fronts on APR-Related IB Scholarship are Consumer Behavior, National Culture, Emerging Markets, China, EMNEs, State Ownership, Trust, and Non-Market Strategy

To identify research fronts in 984 APR-related articles, we follow the same steps by first building a bibliographic coupling network of 984 papers, clustering them based on research similarities of their citation patterns and then analyzing each cluster’s articles’ research focus. To develop better understanding of the research focus, we undertake an in-depth content analysis of each cluster’s keywords that authors assign to their papers. The bibliographic coupling network of the APR-related 984 articles, the associated 11 clusters and the top 10 cited papers associated with each cluster are in Fig. 12.9.

To create the same number of clusters as in Fig. 12.8 for all papers published in the six journals, i.e., 11 clusters, we decreased the minimum number of papers per cluster from 50 in Fig. 12.8 to 30 in Fig. 12.9, because the total number of papers published in the six journals on APR topic only (Fig. 12.9) is smaller than the one on all topics (Fig. 12.8). The rationale for clustering the APR-related articles in the same number of clusters as all articles published in the top six IB journals is to compare the research trends between these two sets of articles.

The top five most cited APR-related papers based on the total number of citations are (1) Berry et al. (2010) on institutional approach to cross-national distance; (2)

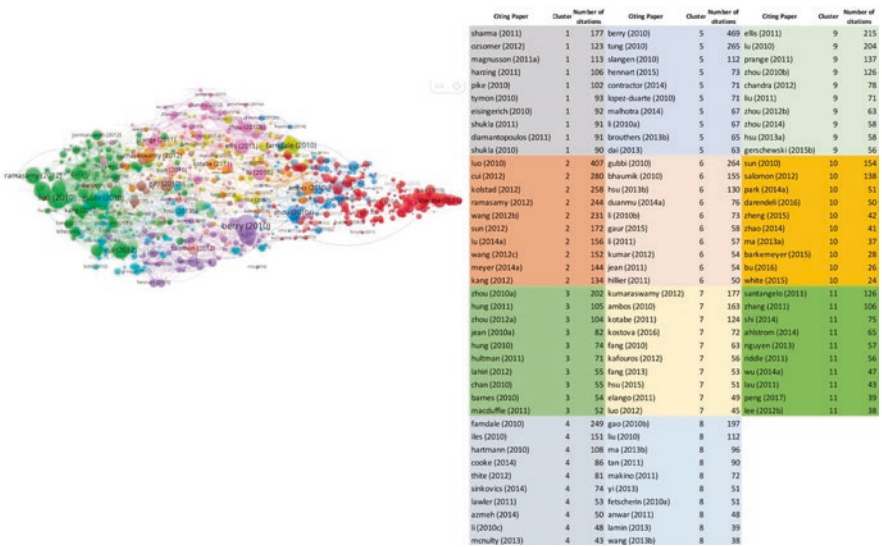


Fig. 12.9 Bibliographic coupling network of 984 APR-related articles in top six IB journals and the research fronts based on the top 10 most cited articles in each cluster, 2010–2019. Source: WOS (2020)

Luo et al. (2010) on how emerging market governments promote outward FDI with a focus on China; (3) Cui and Jiang (2012) on the impact of state ownership on Chinese firms' FDI ownership decisions; (4) Tung and Verbeke (2010) on improving the quality of cross-cultural research; and (5) Gubbi et al. (2010) on international acquisitions by Indian firms. Once we normalize the number of citations, the top five most cited APR-related papers are (1) Luo and Tung (2018) on general theory of springboard MNEs; (2) Berry et al. (2010) on institutional approach to cross-national distance; (3) Gaur et al. (2018) on home country supportiveness/unfavorableness associated with outward foreign direct investment from China; (4) Luo et al. (2010) on how emerging market governments promote outward FDI with a focus on China; and (5) Cui and Jiang (2012) on the impact of state ownership on Chinese firms' FDI ownership decisions.

Before we proceed to identification and analysis of the research fronts and research trends of each cluster in Fig. 12.9, we analyze the network of the author keyword co-occurrences of all 984 APR papers to have a better overall understanding of APR-focused research topics and the most studied countries in this set of papers. The author keywords are almost always included in the bibliographic metadata for the period 2010–2019.⁹ The author-chosen keywords seem to be more descriptive of the research topics compared to the keywords assigned by the journals and listed in the field “Keyword plus” of the WOS database. To increase the accuracy of the used keywords and eliminate multiple counting of the different variations of the same word or phrase, we first extracted all the keywords using the VOSViewer software, and then created a thesaurus. In the author-created thesaurus, we assigned, for example, a word “MNE” to such words and phrases as multinational enterprise, MNC, MNCs, MNEs, etc.¹⁰ The resulting largest network of the connected author keywords of the entire set of APR-related publications consists of 2278 keywords (Fig. 12.10).

Every node in Fig. 12.10 is an author keyword (adjusted using the thesaurus). The size of a node or a circle corresponds to the number of articles that have that keyword. The network on the right of Fig. 12.10 demonstrates the temporal distribution of the keyword frequencies with, for example, words “Trust,” “USA,” “Chile,” and “Consumer Behavior” having more purple tones than the word “China.” This implies that the articles with author keywords China (and thereby focusing on China) have started to be published in later years during 2010–2019 than the articles on trust, Chile, consumer behavior, and USA. At the same time, even though the articles on China have been more recent based on the average year of their publications, the number of those articles significantly surpassed the number of articles on trust, consumer behavior, USA, Chile, as the size of the circle with “China” is larger than the ones for the other keywords.

⁹About five papers did not have the author keywords, so we entered the keywords that were assigned by the journals, which appear in the field “keyword PLUS” in the WOS.

¹⁰The full thesaurus is available upon request from the authors.

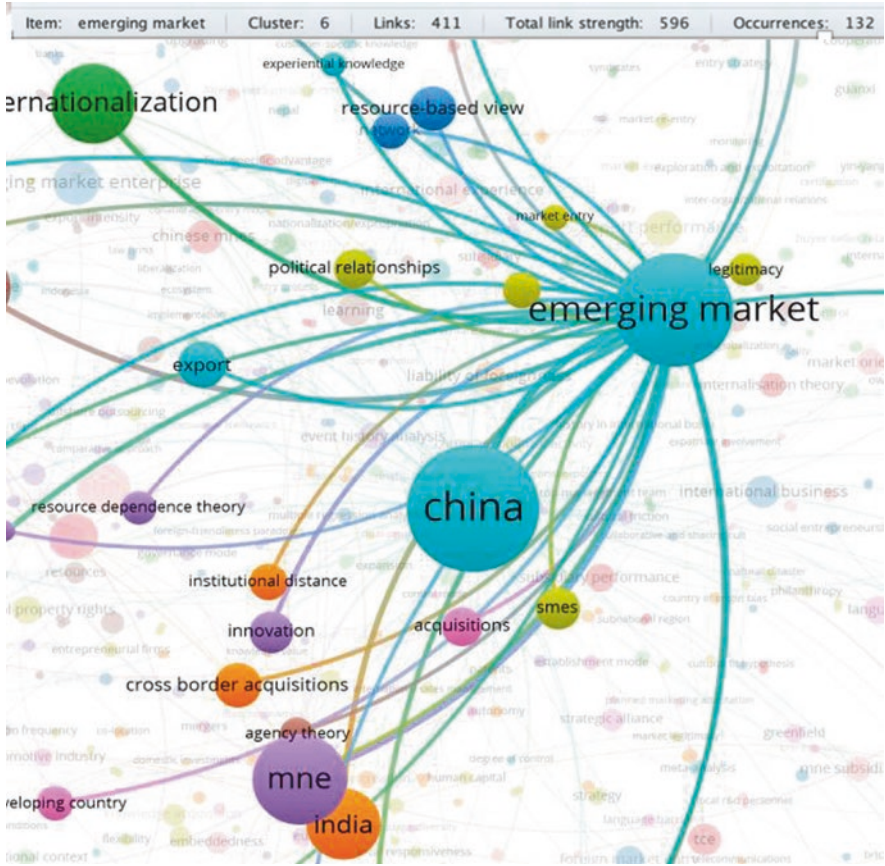


Fig. 12.12 Network characteristics of the keyword “emerging market” including its cluster (6), number of links (411), total link strength (596), and the number of occurrences (132)

cluster and their interrelationships. For example, 132 papers choose a keyword “emerging market” (Fig. 12.12).

These 132 papers use other keywords in addition to “emerging market,” so “emerging market” keyword is connected or linked to 411 other keywords in this network (denoted as “Links” in Fig. 12.12). This implies that there are 411 pairs of keywords, one of which is “emerging market,” and each pair appears in at least one list of keywords or in other words in at least one article that has that list of keywords. Each such connection between two keywords is characterized by a link strength, which is the total number of papers that use both keywords, i.e., it is the total number of co-occurrences of these two key words.

For example, the words “Emerging Market” and “MNE” co-occur 20 times across all articles included in the network, so the link strength between “Emerging Market” and “MNE” keywords is 20 (this number is not shown in Fig. 12.12 and rather captured by the thickness of the link connecting “emerging market” and

“MNE”). This means that the keywords “Emerging Market” and “MNE” appear in the same 20 papers. By contrast, the words “Emerging Market” and “SMEs” appear together only in three papers, which means that they co-occur only three times and therefore the link strength is three between “Emerging Market” and “SMEs.” Thus, the link strength is higher for the pair “MNE” and “Emerging Market” than for the pair “SMEs” and “Emerging Market,” and so the line connecting “MNE” and “Emerging Market” is thicker than the line connecting “SMEs” and “Emerging Market” in Fig. 12.12. This means that there is a larger body of research on MNEs and emerging markets than on SMEs and emerging markets in the context of APR.

Each keyword is also characterized by the total link strength, which is the sum of all link strengths of that keyword. For example, “Emerging Market” keyword’s total link strength is 596 (denoted as “Total Link Strength” in Fig. 12.12), of which 20 points come from the link strength between “MNE” and “Emerging Market,” three points come from the link strength between “SMEs” and “Emerging Market,” and the rest come from the link strengths of the rest of the 409 ($=411 - 2$) keywords that co-occur with “Emerging Market.” Notice that all three keywords, “Emerging Market,” “MNE,” and “SMEs” are colored in three different colors implying that each of these keywords belongs to a different cluster. This implies that “Emerging Market” keyword co-occurs more often with every other keyword from the same cluster (colored in the same light blue color) than with the keywords outside the cluster. For example, the words “China” and “Emerging Market” are colored in the same color and therefore they belong to the same cluster, based on which we can conclude that “Emerging Market” and “China” co-occur more frequently not only with each other but also with every other keyword from the same cluster.

Since authors choose keywords strategically to identify the key research issues that their papers study, knowing the keywords, their co-occurrences, and clusters for a set of papers allows us to identify the main research themes as well as connections among them. Table 12.2 lists the top 10 keywords for each identified keyword cluster presented in Fig. 12.10,¹¹ so we summarized the research themes in the column “Research Topic” in Table 12.2 on the basis of most frequently used keywords.¹²

Thus, Table 12.2 demonstrates that the researchers tend to do research in the context of APR on topics that are similar to the broader IB research topics identified early in this chapter. Surprisingly, each research cluster includes no more than one

¹¹The clustering using “author keyword” as the unit of analysis and applied to the entire set of the APR-related papers (Figure Fig. 12.10) differs from clustering using “publication” as the unit of analysis to identify clusters of tightly coupled publications (Figure Fig. 12.9).

¹²Note that Table 12.2 is created based on the network of keywords extracted from the entire set of APR-related research (Figure Fig. 12.10), and not based on the network of the bibliographically coupled publications presented in Fig. Fig. 12.9. Once we describe the logic of using keywords and their co-occurrences using the entire set of the APR-related articles, we will proceed with the analysis of the keywords associated with every cluster of bibliographically coupled papers identified in Fig. Fig. 12.9 to gauge each cluster’s research topics. The main reason to first focus on keywords of the entire set of APR-related articles rather than on only keywords associated with each cluster is to demonstrate that these two approaches to identify key research themes are more or less equivalent. However, identifying keywords associated with each cluster of bibliographically coupled papers presented in Fig. Fig. 12.9 is a more accurate and systematic approach to describing research fronts and, subsequently analyzing which ones are becoming more prominent.

Table 12.2 Top 10 keywords associated with 11 keywords clusters of APR-related IB research

Author keyword	Cluster Occurrence	Research Topic	Author keyword	Cluster Occurrences	Research Topic
entry mode	1	24	china	6	169
culture	1	20	emerging market	6	132
international marketing	1	19	institutional theory	6	29
chinese mnes	1	13	ofdi	6	24
korea	1	13	export	6	21
tce	1	12	soe	6	11
m&a	1	10	state ownership	6	11
cultural values	1	9	international new venture	6	10
subsidiary performance	1	9	born global	6	9
ethnocentrism	1	7	knowledge-based view	6	8
internationalization	2	64	india	7	52
consumer behavior	2	25	emne	7	32
country of origin	2	19	cross-border m&a	7	20
cross-cultural research	2	14	cross border acquisitions	7	19
cross-national	2	11	institutional distance	7	13
brand management	2	10	liability of foreignness	7	11
structural equation modeling	2	10	transition economy	7	8
ownership structure	2	8	hfm	7	7
brand image	2	7	headquarters-subsidiary relation	7	6
commitment	2	7	chinese firms	7	5
trust	3	25	fdi	8	55
emerging market enterprise	3	22	learning	8	12
resource-based view	3	20	agency theory	8	10
japan	3	17	internationalization process	8	9
absorptive capacity	3	16	knowledge	8	8
expatriate	3	13	talent management	8	7
network	3	13	business network	8	6
international business	3	12	international diversification	8	6
firm performance	3	11	offshoring	8	6
foreign market entry	3	9	resources	8	5
ijvs	4	29	acquisitions	9	15
smes	4	17	knowledge transfer	9	14
export performance	4	15	organizational learning	9	14
political relationships	4	15	developing country	9	12
corporate social responsibility	4	14	usa	9	11
corporate governance	4	13	language	9	9
institution-based view	4	13	australia	9	8
uncertainty	4	11	location	9	8
business groups	4	10	psychic distance	9	7
legitimacy	4	10	alliances and joint ventures	9	6
mne	5	83	performance	10	30
innovation	5	17	cultural distance	10	15
jvs	5	11	case study	10	14
resource dependence theory	5	11	international experience	10	12
location choice	5	10	capability development	10	11
non-market risk	5	9	international entrepreneurship	10	10
event history analysis	5	8	market orientation	10	8
russia	5	7	mne subsidiaries	10	7
brazil	5	6	early internationalization	10	6
private firms	5	6	embeddedness	10	6
institutional environment	11	42	cooperation	11	4
national culture	11	17	guanxi	11	4
dynamic capability	11	11	institutional context	11	4
IT	11	5	brand equity	11	3
religion	11	5	competition	11	3

large country. For example, entry mode and international marketing belong to the same cluster as Korea indicating that Korean context or Korean companies are often used to study different aspects of international marketing and entry modes. China appears more prominently in the same cluster as state-owned enterprises (SOEs), outward FDI and emerging markets than in other clusters though China as a

keyword appears in almost every cluster of the keyword network of APR-related papers (Fig. 12.10). This implies that APR-related research has been dominated by studies focusing on Chinese companies, industries, or the Chinese business environment, especially in examining such phenomena as outward FDI and SOEs, whereas other APR countries were less if at all analyzed to understand those phenomena. Furthermore, most of the APR-related studies would use Chinese context to advance theorizing about emerging markets and international business in APR. Most if not all of these papers were motivated by the need to develop better understanding of the Chinese market due to its unprecedented growth in the past decade.

India belongs to the same cluster as emerging market MNEs (EMNEs) and cross-border M&A, which is indicative of APR-related M&A research that is often done in the Indian context and captures the importance of M&A for Indian companies or for non-Indian foreign firms to access Indian market. India was often chosen because it has a large market and growing number of EMNEs. USA appears more in studies on acquisitions, knowledge transfer, and organizational learning in the context of APR. Again, these keyword co-occurrences demonstrate that scholars have recently started to study these phenomena extensively and most likely have been motivated by such real-world trends as the US-owned companies paying more attention to acquisitions, knowledge transfer, and organizational learning in APR context.

Even though we included only the articles that had one of the APR countries in their meta-data (title, abstract, and keywords), such countries as Russia and Brazil appear in research on non-market risks (including political risk), MNEs, innovation, and joint ventures in selected APR-related articles. Some of these studies focus on BRICS (Brazil, Russia, India, China, and South Africa) countries, or draw on similarities of emerging markets in APR and non-APR.

The next step in identification of the research frontiers in APR-related papers is an in-depth analysis of the research topics associated with each of the 11 clusters of bibliographically coupled publications, which are displayed in Fig. 12.9. We extracted the author keywords for each cluster and then built a co-occurrence network of keywords for each cluster to identify the most connected and highly occurring keywords as well as keyword clusters.¹³ The summaries of the analysis are in Appendix A, Table 12.3, and Figs. Fig. 12.13, Fig. 12.14, Fig. 12.15.

To ensure the accuracy of identification of the research topics using co-occurrences of the keywords, we conduct a thorough manual content analysis of publications belonging to Cluster 2 (110 publications) and Cluster 3 (100 publications). The manual content analysis includes reading the abstracts, key arguments, and methodological sections of the papers in order to identify their research themes, studied countries, industries, and some other broad aspects useful for research topic analysis. We present this analysis under corresponding Cluster sub-titles below. Overall, we found that using co-occurrence frequencies produces rather precise identification of a cluster's research topics. So, for the remaining clusters, 1 and

¹³ We identified a couple of papers that had unexpected author keywords, country names, that did not seem relevant to the subject of the paper. Thus, 2–3 papers seemed to have some potential errors/typos with author keywords in WOS database

Table 12.3 Research fronts and countries in APR-related articles for each cluster in Fig. 12.9

Figure 10's cluster	Number of papers	Key research area	Countries and regions
Cluster 1	244	consumer behavior and the role of culture in emerging market and Chinese context	China, India, Japan, USA, UK, UAE, Russia, Malaysia, Vietnam, New Zealand, South East Asia, Thailand, Canada, Switzerland, Egypt, Australia, Asia, Germany, Chile, Greece, Korea, Israel
Cluster 2	110	internationalization to emerging markets, OFDI, and EMNEs, mainly in the context of China and India	China, India, Africa
Cluster 3	100	trust in the context of China and emerging markets as it relates to general firm performance, export performance and JVs	China, Bangladesh, Hong Kong, Japan, Taiwan, India, Vietnam, Russia
Cluster 4	94	MNEs and talent management in the context of China, emerging markets, and India	China, Pakistan, Finland, Turkey, Myanmar, Korea, India, Asia, Brazil, Korea, Japan, Kyrgyzstan
Cluster 5	87	entry mode choices in the context of China and emerging markets	China, India, Japan, Caucasus, EU, Central Asia, MENA, Taiwan, Turkey, Vietnam
Cluster 6	77	corporate governance in the context of emerging markets, China, and India	China, India, USA, South Africa, Korea, Africa, Brazil, BRICS, Taiwan, Japan, Korea, Africa
Cluster 7	74	knowledge transfer and acquisition of mainly MNEs in the context of emerging markets and China	China, Africa, Korea, Taiwan, South East Asia, India, Europe
Cluster 8	64	FDI in the context of China and emerging markets	China, Japan, Africa, Ghana, MENA, India, USA
Cluster 9	64	internationalization and international entrepreneurship in the context of emerging markets	India, China, Korea, New Zealand, Sweden
Cluster 10	40	non-market strategies, political relationships, and corporate political activity in the context of emerging markets	China, Korea, India, Australia, Ghana, USA, Central Asia, Eastern Europe
Cluster 11	33	institutional environment and intellectual property rights in the context of China	China, Vietnam, USA, Nepal

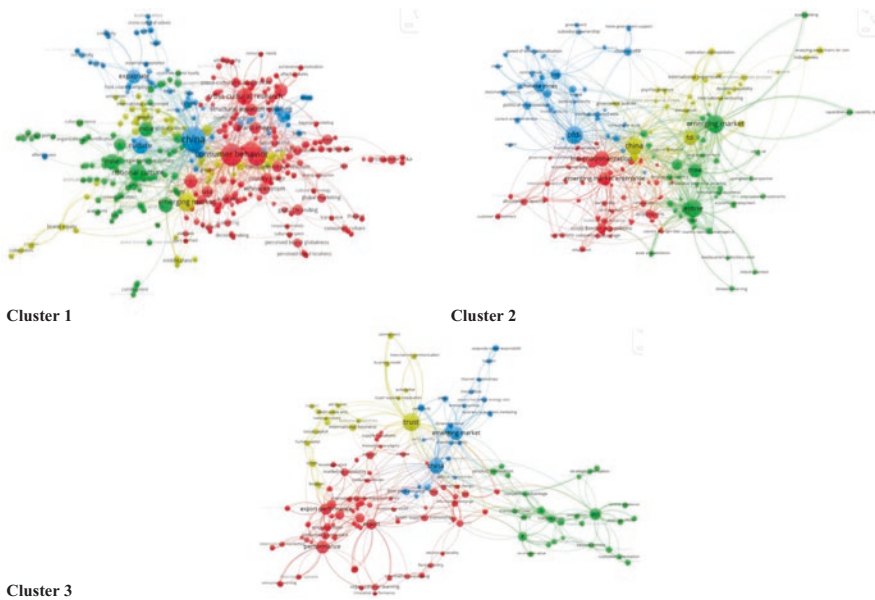
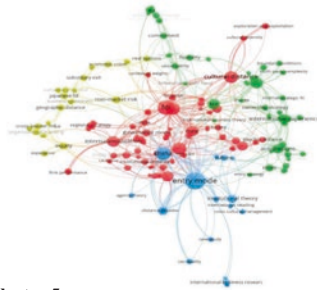


Fig. 12.13 Co-occurrence network of the keywords associated with clusters 1, 2, and 3 of the bibliographically coupled APR-related papers displayed in Fig. Fig. 12.9

4–11, we only relied on keyword co-occurrence frequencies to identify the research themes of those clusters and briefly reviewed the most cited papers within each of those clusters. Table 12.3 summarizes the research topics in one sentence and lists countries studied in each cluster of the tightly coupled papers that we identified through bibliographic coupling analysis presented in Fig. 12.9.



Cluster 4



Cluster 5



Cluster 6



Cluster 7

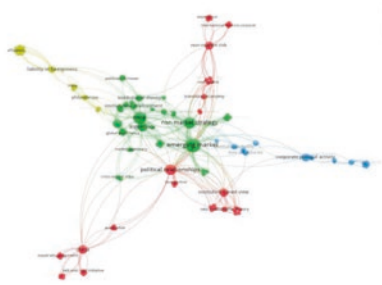
Fig. 12.14 Co-occurrence network of the keywords associated with clusters 4, 5, 6, and 7 of the bibliographically coupled APR-related papers displayed in Fig. Fig. 12.9



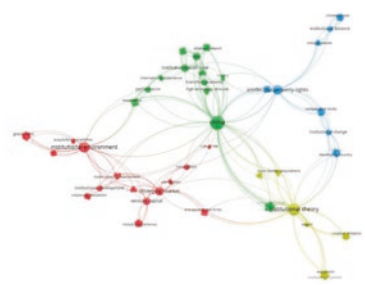
Cluster 8



Cluster 9



Cluster 10



Cluster 11

Fig. 12.15 Co-occurrence network of the keywords associated with clusters 8, 9, 10, and 11 of the bibliographically coupled APR-related papers displayed in Fig. Fig. 12.9

For each cluster, we also list the word clouds, sub-clusters of the author keywords and phrases as well as the most cited publications in Appendix A.

12.4.4 Cluster 1

The most highly occurred keyword of the first cluster of the bibliographically coupled papers is China, followed by consumer behavior, country of origin, emerging market, national culture, cross-cultural research, culture, MNE, and international marketing (see Fig. 12.13 and Appendix A). Thus, the identification of the main research subtopics in each cluster is based on the co-occurrences of the keywords. For Cluster 1, the co-occurrences of the following keywords defined the main research subtopics: (1) China more often co-occurs with culture, expatriate, and consumer animosity; (2) consumer behavior more likely to co-occur with country of origin, cross-cultural research, and international marketing; (3) emerging market tends to appear more often in the same list of keywords as cultural values, animosity, and cosmopolitanism; and (4) national culture co-occurs more frequently with MNE, India, and Japan. Out of the 241 papers in this cluster, 81 papers (34%) studied IB in the Chinese context. Of these 81 papers, 36 (44.4%) were published in the two marketing journals, and only 11 (13.6%) were published in JIBS. The rest of the papers were published in JWB (10), IBR (19), and JIM (5).

The extensive examination of China is somewhat expected. Sharma (2011), the most cited paper in this cluster, developed a conceptual framework to demonstrate the moderating influence of consumer ethnocentrism, materialism, and value consciousness on the effects of country of origin on evaluations, behavioral intentions, and actual purchase of imported products. The empirical analysis deployed surveys of consumers and demonstrated that there are differences in consumer motivations toward imported products between developed markets (the USA and the UK) and emerging markets (China and India). This paper's key empirical finding is that, to understand such differences, it is important to examine a range of psychographic variables rather than focus predominantly on consumer ethnocentrism. Lack of research on consumer perceptions in emerging markets motivated the choice of emerging markets, whereas the choice of China and India were motivated by two reasons: (1) the constructs used in Sharma (2011) had been validated in prior research in these countries; and (2) manufacturing boom in China and increasing acceptance of Chinese products around the world.

Eisingerich and Rubera (2010)'s research explains the impact of brand innovativeness, brand customer orientation, brand self-relevance, and social responsibility on customer commitment to a brand in different cultures. The hypotheses were tested using survey responses from the UK and Chinese consumers which revealed that brand management activities would have an equal contribution to brand commitment in a cultural context characterized by collectivism, long-term-orientation, and high-power distance. The main motivation for choosing the Chinese context was the unclear role of cultural differences in research on global brand management

decision-making process that required two countries with substantially different cultures, which was why the UK and China were chosen. The main conclusion of the study is that “companies must make different brand management decisions in different countries to enhance customer commitment to their brands” (Eisingerich & Rubera, 2010, p. 75).

The third most cited paper in this cluster that examined China (Wang, Li, et al., 2012) demonstrated theoretically and empirically (large N consumer survey) that cognitive and affective country images differ in their influence on the intention to purchase. The main motivations for choosing Chinese consumers for collecting data on their perceptions regarding different aspects of country image were: (1) growing prosperity of Chinese economy; (2) increasing demand for domestic products by value-conscious Chinese consumers; and (3) emergent interest of Chinese firms to purchase foreign brands, often for the purpose of masking its home country, China, due to quality concerns.

Overall, Fig. 12.13 (Cluster 1) shows that the main focus of 244 APR-related papers included in Cluster 1 in Fig. 12.9 is on consumer behavior, brand management, and the role of culture in emerging market context and with special focus on the Chinese market.

12.4.5 Cluster 2

The most highly occurring keyword of the second cluster of the bibliographically coupled papers in Fig. 12.9 is emerging market and OFDI (outward foreign direct investment), followed by EMNE (emerging multinational enterprises) and China (Fig. 12.13 [Cluster 2] and Appendix A). Notice that Cluster 1 and Cluster 2 are located on the opposite sides of the bibliographic coupling network (Fig. 12.9), which means that the research topics of these two clusters are barely, if at all, connected. To summarize Cluster 2’s research topics we used (1) calculation of the co-occurrence frequencies of the keywords as we did for Cluster 1 and (2) manual content analysis of the 110 publications in this cluster to ensure that publication’s keyword frequencies could be used for accurate identification of the research topics of the APR-related IB research. The manual content analysis reveals that a large number of papers are on Chinese companies, EMNEs, Indian companies, M&A, SOEs, internationalization, and outward FDI as reflected by the most frequently used keywords to describe papers in this cluster (Appendix A).

Seventy-four out of the 110 papers (67%) in Cluster 2 focused on various aspects of IB associated with China with most of them conducting empirical analysis using only Chinese companies. Twenty-four out of the 110 papers (21.8%) examines IB activities of Indian firms or characteristics of the Indian business environment. Nine out of the 110 (8.2%) papers compared internationalization activities of Indian and Chinese companies. Thirty-five out of the 110 papers (31.8%) studied OFDI and 27 out of 110 papers (24.5%) examined merger and acquisition (M&A) activities of

emerging market multinationals (EMNE) . Eleven out of the 110 papers (10%) focused on the internationalization of state-owned enterprises (SOEs).

To compare manual content analysis and publication keyword co-occurrences, we triangulated information from both co-occurrence frequencies and the results of the manual content analysis. As a result, we identified the following four main research themes of Cluster 2:

1. OFDI co-occurs more frequently with Chinese MNEs and state-owned enterprises (SOEs). This is not surprising as 27.7 % of the cluster's papers studied OFDI of the Chinese MNEs with the top five most cited papers in this cluster focusing specifically on various OFDI aspects of Chinese companies (Luo et al., 2010; Cui & Jiang, 2012; Kolstad & Wiig, 2012; Ramasamy et al., 2012; Wang, Hong, et al., 2012). Eight out of 11 papers in this cluster studying SOEs use only Chinese companies for empirical testing (e.g., Cui & Jiang, 2012; Meyer et al., 2014) and only one paper studying SOEs use Indian companies as samples (Choudhury & Khanna, 2014).
2. Emerging market appears more frequently with EMNE, MNE, India, and cross-border M&A with most studies on Indian EMNEs examining M&As. Six out of 27 papers on M&As in this cluster used only Indian companies in their samples (Buckley et al., 2012; Buckley et al., 2016). Six out of 27 papers on M&As in this cluster compared M&As of Chinese and Indian companies (Sun et al., 2012; Nicholson & Salaber, 2013). Six out of 27 paper on M&As examined international activities of only Chinese companies (e.g., Du & Boateng, 2015; Li et al., 2016). The remaining 9 of the M&A-focused papers were on M&A activities of EMNEs in the APR context (e.g., Lebedev et al., 2015; Deng & Yang, 2015).
3. China co-occurs more frequently with FDI, institutional environment and international experience with 18 out of the 110 papers using institutional explanations for the IB activities of Chinese companies (e.g., Wang, Hong, et al., 2012; Kang & Jiang, 2012; Pan et al., 2014).
4. Internationalization is frequently included in the same list as such keywords as emerging market enterprise, state ownership and cross-border acquisitions, indicating that the majority of the papers in this cluster focused on internationalization activities of EMNEs expanding to other emerging markets (e.g., Parente et al., 2019). Overall, Fig. 12.13 (Cluster 2) shows that the research focus of the 110 APR-related papers included in Fig. 12.9's Cluster 2.2 are on internationalization to emerging markets, OFDI, EMNEs, and M&As mainly in the context of China or India.

12.4.6 Cluster 3

The most highly occurred keyword of the third cluster of the bibliographically coupled papers in Fig. 12.9 is trust/opportunism, followed by China, emerging market, performance, export performance, export, and IJVs (international joint ventures) (Fig. 12.13 [for Cluster 3] and Appendix A). Similar to Cluster 2, we used both

keyword frequencies and manual content analysis to identify the main research topics studied by papers that are tightly coupled. After manually coding all 100 papers in this cluster by the main research topics and countries studied, we concluded that most of the papers either focused on companies operating in emerging markets or companies from emerging economies doing business internationally.

About 75% of papers of this cluster analyzed the performance of companies (e.g., export performance, innovation performance) as the main dependent variable, and 65% of papers focused on resources and capabilities of companies as the main explanatory variables (e.g., Hultman et al., 2011). Forty-six percent of the papers focused on the overall Chinese context with 35% of them studying Chinese companies (e.g., Zhou & Poppo, 2010) and 11% studying IJVs between Chinese and foreign partners operating in China (e.g., Mohr & Puck, 2013). Thirty-nine out of the 100 publications focused on trust, opportunism, and governance, of which 21 situating on the Chinese context (Zhou & Xu, 2012) and 14 in other emerging market contexts (e.g., Taiwan, India, Pakistan, Bangladesh) (Jean et al., 2010). Furthermore, 10 out of the 39 publications examined the issues of trust, cooperation, and opportunism in IJVs with Chinese partners (Chen et al., 2014). Export-related publications (33% of the papers in Cluster 3) examined the impact of resources and capabilities, including marketing capabilities and managerial ties as well as cultural differences, on firm performance (He & Wei, 2011). Finally, export-related publications had high level of geographic diversity with companies from 10 countries included in the empirical analysis (e.g., Chung, 2012; Freeman et al., 2012; Souchon et al., 2012; Pham et al., 2017). Eighteen of 33 papers (55%) on export-related topics were published in international marketing journals.

The pattern of these research topics in Cluster 3 that we identified using manual content analysis is similar to that derived on the basis of frequencies of keyword co-occurrences. According to the keyword co-occurrences, Cluster 3's main research topics are: (1) emerging markets and China, (2) emerging markets and trust; (3) trust and China; (4) IJVs and China; (5) export performance and marketing capabilities; (6) performance and organizational learning; and (7) Taiwan and innovation (Fig. 12.13 [Cluster 3] and Appendix A).

In terms of the geographic coverage, Cluster 3 is much more diverse than Cluster 2 with companies from 16 APR countries used in empirical analysis. In particular, IB scholarship has extensively examined electronics and other IT industries in Taiwan (14 papers) in terms of organizational learning, dynamic capabilities, firm resources and capabilities, social capital, culture to understand their influences on firm performance (e.g., Hung et al., 2011; Johnston et al., 2012). Culture, social capital, auto industry, marketing capabilities, strategic alliances, and organizational learning were subject of seven papers using Japanese companies as the subject of analysis (e.g., Slater & Robson, 2012) with two of these papers studying both Japanese and South Korean companies (e.g., Dyer & Chu, 2011). Most of the papers that focused on Australian companies (3 out of 4) examined export-related topics (e.g., Mathews et al., 2016), whereas papers that focused on South Korean companies (4 out of 4 papers) examined different aspects of social capital (e.g., managerial ties) and other internal capabilities with their impact on firm performance (e.g.,

Musteen et al., 2017). Research on Indian companies in this cluster (5 papers) focused on trust, export, and performance determinants in IT or service industry (e.g., Lahiri et al., 2012). Other APR contexts studied included Bangladesh (2 papers), Thailand (1 paper), Vietnam (1 paper), Malaysia (1 paper), Singapore (2 papers), Philippines (1 paper), and New Zealand (1 paper).

Our analysis of Clusters 1–3 demonstrated that the identification of the key research topics associated with a cluster can rely on the frequencies of keyword co-occurrences, which is a much faster way of identifying key research topics compared to manual content analysis. Therefore, for the remaining clusters (Clusters 4–11), we used only keyword frequencies for the identification of each cluster's research themes.

12.4.7 Cluster 4

The most highly occurred keyword in the fourth cluster of the bibliographically coupled papers in Fig. 12.9 is China, followed by MNE, emerging market, talent management, human resource management (HRM), India, and case study (Fig. 12.14 [Cluster 4] and Appendix A). The top 10 cited papers in this cluster are predominantly on talent management or HR functions (Appendix A). Overall, Fig. 12.13 (Cluster 4) shows that the 94 APR-related papers in this cluster are on MNEs and talent management in the context of emerging markets in general and China and India in particular, which we identify as the main research topics of this cluster. The most cited paper in this cluster is on the corporate HR function in MNEs (Farndale et al., 2010) that examines the implications of increasing global competition for talent and international talent mobility in emerging markets for firms' global talent management.

12.4.8 Cluster 5

The most highly occurred keyword in the fifth cluster of the bibliographically coupled papers in Fig. 12.9 is entry mode, followed by FDI, China, cultural distance, emerging market, JVs (joint ventures), internationalization, and IJVs (Fig. 12.14 [Cluster 5] and Appendix A).

Overall, the research themes of the Cluster 5's 87 APR-related papers that we identified are entry mode choices (including FDI and IJVs) as well as cultural distance, institutional environment, and transaction costs in the context of China and emerging markets. The most cited paper in this cluster uses institutional theories to disaggregate the construct of cross-national distance into economic, political, cultural, and other dimensions (Berry et al., 2010). Other top cited papers in this cluster focus on institutional, cultural, and market determinants of entry mode choices (e.g., Contractor et al., 2014; Brouthers, 2013) (see Appendix A).

12.4.9 Cluster 6

The most highly occurred keyword in the sixth cluster of the bibliographically coupled papers in Fig. 12.9 is emerging market, followed by China, internationalization, India, corporate governance, and business groups (Fig. 12.14 [Cluster 6] and Appendix A). India most often co-occurs with “business groups;” China with “corporate governance;” “emerging market;” “institutional environment;” and internationalization with “ownership structure.” Thus, the main research topics of this cluster’s 77 APR-related papers are internationalization and corporate governance in the context of emerging markets with most attention devoted to two emerging markets, China and India. The most cited paper of this cluster focuses on acquisitions of EMNEs to increase shareholder value through internationalization of both tangible and intangible resources in the context of India (Gubbi et al., 2010).

12.4.10 Cluster 7

The most highly occurred keyword of this cluster of the bibliographically coupled papers in Fig. 12.9 is China, emerging market, MNE, knowledge transfer, and knowledge acquisition (Fig. 12.14 [Cluster 7] and Appendix A). China co-occurs often with “knowledge transfer” and “organizational learning;” “emerging market” often co-occurs with “knowledge acquisition”; while MNE often co-occurs with “knowledge transfer,” India, innovation and “absorptive capacity” (Appendix A and Fig. 12.13 (Cluster 7)). Thus, the identified research themes of the 74 APR-related papers in Cluster 7 are knowledge transfer and knowledge acquisition by MNEs in the context of emerging markets, China and India. The top cited paper in this cluster examines the determinants of a strategy of knowledge creation for domestic companies during their integration within the global value chains in the context of India (Kumaraswamy et al., 2012).

12.4.11 Cluster 8

The most highly occurred keywords of this cluster include FDI and China, followed by emerging market and institutional environment (Fig. 12.15 [Cluster 8] and Appendix A). The most co-occurred pairs are China and FDI; emerging market and FDI; institutional environment and emerging market; emerging market enterprise (EMNE), export intensity, and institutional environment. After analyzing the frequencies of the keywords and their co-occurrences, we conclude that the main research topics of Cluster 8 (64 APR-related papers) are FDI, export, and institutional environment in the context of China and other emerging markets. The most cited paper of this cluster explores the determinants of foreign firms’ export

behavior in China and finds that institutional environment has much more profound impact on firm's export intensity than firm competencies and industry competition (Gao et al., 2010).

12.4.12 Cluster 9

The most highly occurred keywords of this cluster are internationalization, followed by emerging market, international new ventures, SMEs, born global, SMEs (small and medium-sized enterprises), international entrepreneurship, India, China, and early internationalization (Fig. 12.15 [Cluster 9] and Appendix A).

Most frequently co-occurred words are internationalization and SMEs; internationalization and emerging market; emerging market and international new venture; born global and emerging market; China and early internationalization; India and international new venture; international entrepreneurship and born global. Thus, the key research topics of Cluster 9 (64 APR-related papers) are internationalization and international entrepreneurship in the context of emerging markets, China and India. The most cited paper in this cluster investigates entrepreneurial methods to identify existing and emerging business opportunities in the context of China (Ellis, 2011).

12.4.13 Cluster 10

The most highly occurred keywords of this cluster are emerging market, followed by MNE, non-market strategy, political relationships, and legitimacy (Fig. 12.15 [Cluster 10] and Appendix A). Emerging market co-occurs most frequently with non-market strategy and political relationships, whereas MNE co-occurs most frequently with legitimacy, institutional environment, non-market strategy, and emerging market. Thus, the research focus of the 40 APR-related papers in Cluster 10 is on non-market strategies, political relationships, and corporate political activity in the context of emerging markets. The most cited paper examines the impact of embeddedness of MNEs in host-country political networks on MNEs' competitive positions in the host country (Sun et al., 2010).

12.4.14 Cluster 11

The most highly occurred keywords of this cluster are China, followed by institutional theory, institutional environment, and intellectual property rights (Fig. 12.15 [Cluster 11] and Appendix A). The most frequently co-occurred words are China and institutional theory; China and intellectual property rights; institutional

environment and emerging market; and intellectual property rights and institutional theory. Thus, the research themes of this cluster (33 APR-related papers) are institutional environment and intellectual property rights in the context of China. The most cited paper in this cluster studies the impact of institutional environment on business strategies (Santangelo & Meyer, 2011).

12.4.15 Finding 4: The Emerging Research Areas in IB on APR are on Diverse Aspects of Doing Business in Emerging Market Contexts

In particular, the specific emerging research areas include:

- International expansion to emerging markets (Cluster 2)
- Talent management in the context of China and emerging markets (Cluster 4)
- International entrepreneurship in the context of emerging markets (Cluster 9)
- Non-market strategies and corporate political activity in emerging markets (Cluster 10)
- Intellectual property rights and institutional environment in the context of China and other emerging markets (Cluster 11).

To identify the emerging research fronts and the declining areas of interest in APR-related articles published in the top six IB journals, we analyzed the changes in the number of papers over time in each cluster of bibliographically coupled papers by estimating the time trends (Fig. 12.9). To determine the clusters that have been growing and the ones in decline, we plot the number of papers and temporal trends for each cluster in 2010–2019 that allows us to capture not only the absolute temporal changes in the number of papers, but also the rate of change over time (Fig. 12.16).

There are upward trends in clusters 2, 4, 9, 10, and 11 (we colored these clusters in green in Table 12.3), which indicates that the research topics associated with these clusters are trending. While we should expect these trends to continue overall, there are variations in the growth rates of publications in these clusters. For example, internationalization to emerging markets (Cluster 2) is the fastest growing area of APR-related research,¹⁴ followed by research on non-market strategies and corporate political activity in the context of emerging markets (Cluster 10). Research on international entrepreneurship (Cluster 9), talent management in emerging markets (Cluster 4) and intellectual property rights in the context of emerging markets (Cluster 11) have been growing at lower rates compared to clusters 2 and 10.

By contrast, clusters 1, 3, 5, and 6 exhibit decline in the number of published papers (these clusters are colored red in Table 12.3). Thus, the research topics in the context of APR associated with clusters 1, 3, 5, and 6 have declined in importance

¹⁴Growth rate corresponds to a slope of the time trend.

as scholars have published fewer and fewer papers on them over time in the last decade though with some spikes in the number of publications on the corresponding topics as seen in Fig. 12.16. The speed of decline also differs among these four clusters. Interest in research on consumer behavior and the role of culture in emerging markets and China (Cluster 1) has been declining at the fastest speed followed by the research on trust in the context of emerging markets as it relates to firm performance, export performance, and IJVs (Cluster 3). While research topics associated with entry mode choices (Cluster 5) and corporate governance (Cluster 6) in the context of emerging markets have also been drawing less attention, the decline in the number of publications has been at a slower pace than that of the research themes associated with clusters 1 and 3.

The last two clusters, clusters 7 and 8 (colored in yellow in Table 12.3), have not had much change in the number of papers over the last 10 years, which shows steady but stable interest in the associated research topics in the context of APR.

12.5 Future Research Directions

This chapter identifies the research fronts in the last decade’s (2010–2019) scholarship on APR in the top six IB journals, JIBS, JWB, IBR, MIR, JIM, and IMR. We use bibliographic coupling analysis to identify the key research clusters of publications in the selected journals based on the similarities of their citation patterns. We

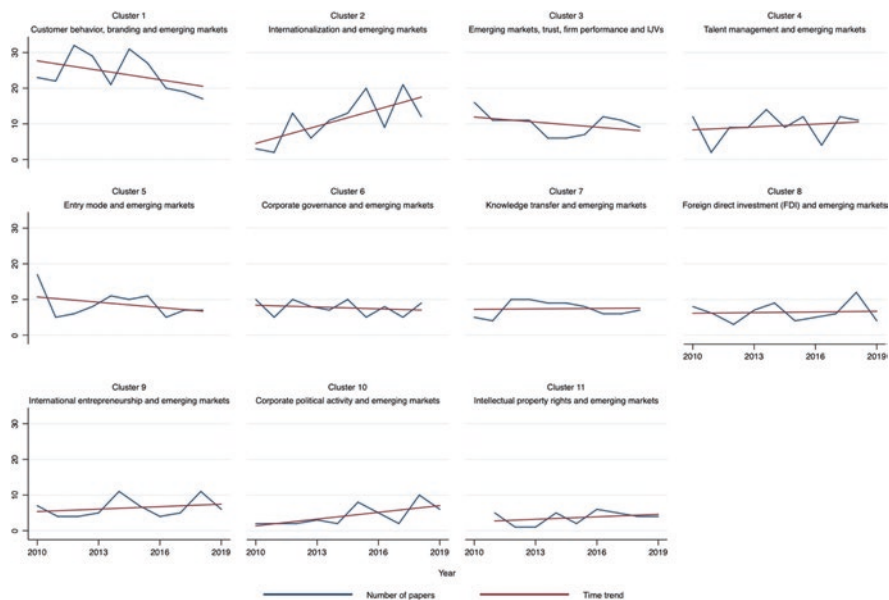


Fig. 12.16 Number of papers and estimated time trends by cluster, 2010–2019

then conduct content analysis of each cluster's keywords to determine the research themes associated with each of the clusters. Finally, we use time trend analysis to identify the future directions of IB-APR research.

The findings reveal that China has been studied extensively as it appears in every cluster (Table 12.3). India is the second most studied country followed by Korea, Vietnam, and Japan. Recent data on international trade, FDI, and contractual agreements for China and India demonstrate that the two countries are emerging markets with significant economic potential, which explains why IB scholars have paid so much attention to them. Also, unsurprisingly, overall South Korea has drawn attention of scholars to a larger extent than Japan, though Japan was studied more frequently than South Korea in some isolated areas of research (e.g., Cluster 3 on trust). South Korea has been experiencing significant economic growth starting from the 1980s and some of its industries have taken the "lead-market" status away from the USA and Japan (e.g., semi-conductor industry, consumer electronics industry) due to their substantial emphasis on innovation and R&D. Now South Korea is one of the world's leaders in innovation closing gap with other advanced economies (OECD, 2019). Vietnam's lower wages compared to other countries in the region, aggressive market reforms resulting in attractive environment for foreign investors, and extensive liberalization policies including its membership in ASEAN and TPP has also attracted extensive scholarly interest.

Many other countries in APR received much less attention. Most of the topics on APR have either "emerging market" or EMNE as the most frequently used keywords, which indicates that most of the APR-related scholarship is focused on IB issues in the context of emerging economies. It is somewhat expected given that there has been an increase in the overall research interest in emerging markets in IB scholarship (Demirkan et al., 2019).

Even though the largest body of research was on consumer behavior and the role of culture in emerging markets, the interest in this area of research has been declining over time. At the same time, some of the most promising research topics based on the increasing trends in the number of publications over the last decade, i.e., international expansions and corporate political activity in the context of emerging markets have not yet accumulated many publications.

The main implications of the identified research fronts are the potential future directions for IB-APR research within the research topics corresponding to clusters 2, 4, 9, 10, and 11. Some common strategies to advance APR-related research for all five growing clusters are:

1. To extend research inquiry within those topics to a broader set of countries by testing existing hypotheses across contexts. All areas of APR-related research will benefit from expanding their research inquiries beyond China using an etic framework.
2. To examine existing patterns of IB phenomena, across emerging countries in APR other than China and India using an emic framework, similar to the analysis of companies in Taiwan's electronics industry and their international operations (see Cluster 3). Furthermore, detecting new patterns and trends within and across

different countries should provide untapped research opportunities including modifications of existing IB-related theories, if they cannot explain novel patterns, and development of new theoretical arguments.

3. To expand the methodological approaches, i.e., alternative operationalizations and methodologies used to study IB-APR phenomena if existing explanations have conflicting empirical findings.
4. To increase the use of mathematical modeling such as game theory and other types of formal modeling such as equilibrium models and signaling models to develop more accurate theoretical explanations of some of the IB-APR phenomena.
5. To improve integration of IB-APR research with other disciplines, especially the ones that have accumulated substantial knowledge on some aspects of the growing clusters. For example, theories from sociology and political science could be integrated with existing IB explanations of the socio-political environment to develop better understanding of the conditions under which some non-market strategies can improve firm performance.

Cluster 2 is illustrative as its predominant focus is on the Chinese context with much fewer papers on India and only one paper on Africa. Yet, research questions related to the outward FDI from emerging countries and internationalization of EMNEs are important to address beyond the Chinese and Indian contexts to increase generalizability of the developed theories and identify novel internationalization patterns of EMNEs across highly heterogeneous emerging markets even within APR. That is, scholars may ask the same research questions as the ones posed in many papers in Cluster 2, but use contexts other than China and India or potentially use several countries for comparison. For example, some of the future research questions within Cluster 2's research theme may include the following: (1) What is the impact of EMNEs internationalization on CSR activities at home? (2) What are the main determinants of internationalization speed of EMNEs and what is the impact of government policies on it? (3) What is the impact of home political connections of EMNEs on their internationalization success?

Some of the future research directions within Cluster 4 could focus on: (1) What is the impact of socio-political characteristics of emerging markets on choices of MNE's HR strategies including local talent identification and management? (2) What is the impact of MNEs' capabilities associated with overcoming local knowledge disadvantages on MNE performance? (3) Under what conditions, will the impact of foreign knowledge spillovers by returnee managers positively impact innovative capacities of local and foreign companies or IJV partners?

Some future research directions within Cluster 9 may include the following: (1) Given that SMEs employ a substantial share of population in any country and thereby important for its economic prosperity, what is the impact of formal and informal politico-economic barriers to internationalization for SMEs from the emerging markets? (2) What is the impact of internet-enabled platforms and other digital technologies on identification and exploitation of export and other business opportunities across countries by SMEs and entrepreneurs from emerging markets?

(3) What is the impact of government innovation and liberalization policies on the development of international entrepreneurship in emerging and non-emerging countries?

Some future research directions within Cluster 10 may include the following: (1) What is the impact of different stakeholder groups on CSR activities of MNEs in host countries across countries in APR? (2) Under what conditions, do firms engage with social actors to improve its legitimacy in emerging markets and what is the impact of engagement diversity on firm performance? (3) What is the impact of electoral processes on firm strategy and performance? (4) What are the determinants of non-market strategies and their impact on success in emerging and non-emerging markets?

The potential future directions of Cluster 11 can be briefly summarized in the following research questions: (1) What is the impact of formal and informal institutions on partner selection in strategic alliances outside of China? (2) What is the impact of variation in enforcement of intellectual property (IP) rights across emerging countries on performance of foreign subsidiaries in APR? (3) Given that technological progress drives economic growth, what is the impact of enforceability of IP rights protection on firms' innovative capacity in emerging markets?

In conclusion, using bibliographic coupling analysis, content analysis, and time trend analysis, we have identified key research trends and emerging research topics in IB scholarship on APR in the last decade, 2010–2019. We hope this will inspire future scholars to further expand the research frontier of IB-APR scholarship.

Appendix

Clusters

Cluster #	Keyword cloud	Keyword clusters	Top 10 cited papers
Cluster 1			<p>Chen, H. 2010. The impact of government innovation and liberalization policies on the development of international entrepreneurship in emerging and non-emerging countries. <i>Journal of International Business Studies</i> 41(1): 1–15.</p> <p>Wang, C. 2012. The impact of government innovation and liberalization policies on the development of international entrepreneurship in emerging and non-emerging countries. <i>Journal of International Business Studies</i> 43(1): 1–15.</p> <p>Wang, C. 2013. The impact of government innovation and liberalization policies on the development of international entrepreneurship in emerging and non-emerging countries. <i>Journal of International Business Studies</i> 44(1): 1–15.</p> <p>Wang, C. 2014. The impact of government innovation and liberalization policies on the development of international entrepreneurship in emerging and non-emerging countries. <i>Journal of International Business Studies</i> 45(1): 1–15.</p> <p>Wang, C. 2015. The impact of government innovation and liberalization policies on the development of international entrepreneurship in emerging and non-emerging countries. <i>Journal of International Business Studies</i> 46(1): 1–15.</p> <p>Wang, C. 2016. The impact of government innovation and liberalization policies on the development of international entrepreneurship in emerging and non-emerging countries. <i>Journal of International Business Studies</i> 47(1): 1–15.</p> <p>Wang, C. 2017. The impact of government innovation and liberalization policies on the development of international entrepreneurship in emerging and non-emerging countries. <i>Journal of International Business Studies</i> 48(1): 1–15.</p> <p>Wang, C. 2018. The impact of government innovation and liberalization policies on the development of international entrepreneurship in emerging and non-emerging countries. <i>Journal of International Business Studies</i> 49(1): 1–15.</p> <p>Wang, C. 2019. The impact of government innovation and liberalization policies on the development of international entrepreneurship in emerging and non-emerging countries. <i>Journal of International Business Studies</i> 50(1): 1–15.</p>
Cluster 2			<p>Wang, C. 2010. The impact of government innovation and liberalization policies on the development of international entrepreneurship in emerging and non-emerging countries. <i>Journal of International Business Studies</i> 41(1): 1–15.</p> <p>Wang, C. 2011. The impact of government innovation and liberalization policies on the development of international entrepreneurship in emerging and non-emerging countries. <i>Journal of International Business Studies</i> 42(1): 1–15.</p> <p>Wang, C. 2012. The impact of government innovation and liberalization policies on the development of international entrepreneurship in emerging and non-emerging countries. <i>Journal of International Business Studies</i> 43(1): 1–15.</p> <p>Wang, C. 2013. The impact of government innovation and liberalization policies on the development of international entrepreneurship in emerging and non-emerging countries. <i>Journal of International Business Studies</i> 44(1): 1–15.</p> <p>Wang, C. 2014. The impact of government innovation and liberalization policies on the development of international entrepreneurship in emerging and non-emerging countries. <i>Journal of International Business Studies</i> 45(1): 1–15.</p> <p>Wang, C. 2015. The impact of government innovation and liberalization policies on the development of international entrepreneurship in emerging and non-emerging countries. <i>Journal of International Business Studies</i> 46(1): 1–15.</p> <p>Wang, C. 2016. The impact of government innovation and liberalization policies on the development of international entrepreneurship in emerging and non-emerging countries. <i>Journal of International Business Studies</i> 47(1): 1–15.</p> <p>Wang, C. 2017. The impact of government innovation and liberalization policies on the development of international entrepreneurship in emerging and non-emerging countries. <i>Journal of International Business Studies</i> 48(1): 1–15.</p> <p>Wang, C. 2018. The impact of government innovation and liberalization policies on the development of international entrepreneurship in emerging and non-emerging countries. <i>Journal of International Business Studies</i> 49(1): 1–15.</p> <p>Wang, C. 2019. The impact of government innovation and liberalization policies on the development of international entrepreneurship in emerging and non-emerging countries. <i>Journal of International Business Studies</i> 50(1): 1–15.</p>
Cluster 3			<p>Wang, C. 2010. The impact of government innovation and liberalization policies on the development of international entrepreneurship in emerging and non-emerging countries. <i>Journal of International Business Studies</i> 41(1): 1–15.</p> <p>Wang, C. 2011. The impact of government innovation and liberalization policies on the development of international entrepreneurship in emerging and non-emerging countries. <i>Journal of International Business Studies</i> 42(1): 1–15.</p> <p>Wang, C. 2012. The impact of government innovation and liberalization policies on the development of international entrepreneurship in emerging and non-emerging countries. <i>Journal of International Business Studies</i> 43(1): 1–15.</p> <p>Wang, C. 2013. The impact of government innovation and liberalization policies on the development of international entrepreneurship in emerging and non-emerging countries. <i>Journal of International Business Studies</i> 44(1): 1–15.</p> <p>Wang, C. 2014. The impact of government innovation and liberalization policies on the development of international entrepreneurship in emerging and non-emerging countries. <i>Journal of International Business Studies</i> 45(1): 1–15.</p> <p>Wang, C. 2015. The impact of government innovation and liberalization policies on the development of international entrepreneurship in emerging and non-emerging countries. <i>Journal of International Business Studies</i> 46(1): 1–15.</p> <p>Wang, C. 2016. The impact of government innovation and liberalization policies on the development of international entrepreneurship in emerging and non-emerging countries. <i>Journal of International Business Studies</i> 47(1): 1–15.</p> <p>Wang, C. 2017. The impact of government innovation and liberalization policies on the development of international entrepreneurship in emerging and non-emerging countries. <i>Journal of International Business Studies</i> 48(1): 1–15.</p> <p>Wang, C. 2018. The impact of government innovation and liberalization policies on the development of international entrepreneurship in emerging and non-emerging countries. <i>Journal of International Business Studies</i> 49(1): 1–15.</p> <p>Wang, C. 2019. The impact of government innovation and liberalization policies on the development of international entrepreneurship in emerging and non-emerging countries. <i>Journal of International Business Studies</i> 50(1): 1–15.</p>
Cluster 4			<p>Wang, C. 2010. The impact of government innovation and liberalization policies on the development of international entrepreneurship in emerging and non-emerging countries. <i>Journal of International Business Studies</i> 41(1): 1–15.</p> <p>Wang, C. 2011. The impact of government innovation and liberalization policies on the development of international entrepreneurship in emerging and non-emerging countries. <i>Journal of International Business Studies</i> 42(1): 1–15.</p> <p>Wang, C. 2012. The impact of government innovation and liberalization policies on the development of international entrepreneurship in emerging and non-emerging countries. <i>Journal of International Business Studies</i> 43(1): 1–15.</p> <p>Wang, C. 2013. The impact of government innovation and liberalization policies on the development of international entrepreneurship in emerging and non-emerging countries. <i>Journal of International Business Studies</i> 44(1): 1–15.</p> <p>Wang, C. 2014. The impact of government innovation and liberalization policies on the development of international entrepreneurship in emerging and non-emerging countries. <i>Journal of International Business Studies</i> 45(1): 1–15.</p> <p>Wang, C. 2015. The impact of government innovation and liberalization policies on the development of international entrepreneurship in emerging and non-emerging countries. <i>Journal of International Business Studies</i> 46(1): 1–15.</p> <p>Wang, C. 2016. The impact of government innovation and liberalization policies on the development of international entrepreneurship in emerging and non-emerging countries. <i>Journal of International Business Studies</i> 47(1): 1–15.</p> <p>Wang, C. 2017. The impact of government innovation and liberalization policies on the development of international entrepreneurship in emerging and non-emerging countries. <i>Journal of International Business Studies</i> 48(1): 1–15.</p> <p>Wang, C. 2018. The impact of government innovation and liberalization policies on the development of international entrepreneurship in emerging and non-emerging countries. <i>Journal of International Business Studies</i> 49(1): 1–15.</p> <p>Wang, C. 2019. The impact of government innovation and liberalization policies on the development of international entrepreneurship in emerging and non-emerging countries. <i>Journal of International Business Studies</i> 50(1): 1–15.</p>

Cluster #	Keyword cloud	Keyword clusters	Top 10 cited papers
Cluster 5			<p>Berry, H., Guillen, M.F., Zhou, N. (2010). An institutional approach to cross-national distance. <i>Journal of International Business Studies</i>, 41(9), 1460–1480.</p> <p>Tang, H., Yueh, A. (2013). Beyond multinationals and SMEs: Improving the quality of cross-cultural research. <i>International Business Review</i>, 22(1), 1–10.</p> <p>Shang, H., Wang, S., Baskerville, S. (2013). The impact of institutional factors on foreign multinational activity: A contingency perspective. <i>Journal of International Business Studies</i>, 44(1), 1–13.</p> <p>Hennart, J.F., Slangen, A.H.L. (2013). Yes, we really do need more entry mode studies: A commentary on Shaver. <i>Journal of International Business Studies</i>, 44(1), 1–13.</p> <p>Lopez Duarte, C., Vidal-Gadea, M.M. (2013). International, cultural and industry related determinants of ownership choice in emerging market FDI acquisitions. <i>International Business Review</i>, 22(1), 1–10.</p> <p>Mathias, S., Geac, A. (2013). Spatial geography and control in foreign acquisitions. <i>Journal of International Business Studies</i>, 44(1), 1–13.</p> <p>U.S. I.P. (2013). Feasibility versus commitment: SMEs' ownership strategy in China. <i>Journal of International Business Studies</i>, 44(1), 1–13.</p> <p>Brothers, K.D. (2013). A retrospective on: Institutional, cultural and transaction cost influences on entry mode choice and performance. <i>Journal of International Business Studies</i>, 44(1), 1–13.</p> <p>Dai, L., Edvin, L., Besselaar, P.W. (2013). Place, space, and geographical exposure: Foreign subsidiary survival in conflict zones. <i>Journal of International Business Studies</i>, 44(1), 1–13.</p>
Cluster 6			<p>Stable, M., Acharya, P.S., Das, S., Sarkar, M.B., Choudhry, A. (2013). A theoretical approach to emerging economies: From corporate governance to the role of the state. <i>Journal of International Business Studies</i>, 44(1), 1–13.</p> <p>Wang, M., Chen, H., Cheng, C. (2013). Internationalization and performance of SMEs: The moderating effect of SME attributes. <i>Journal of International Business Studies</i>, 44(1), 1–13.</p> <p>Quaresima, L. (2013). State-owned SMEs and their survival: A contingency view. <i>Journal of International Business Studies</i>, 44(1), 1–13.</p> <p>Li, M., Hitt, M., Wang, H., Liu, L., Lichtenhan, S. (2013). Internationalization and performance of emerging market firms: The role of ownership and control. <i>Journal of International Business Studies</i>, 44(1), 1–13.</p> <p>Geac, A., Mathias, S. (2013). National and regional differences in foreign market entry: The role of ownership and control. <i>Journal of International Business Studies</i>, 44(1), 1–13.</p> <p>U.S. I.P. (2013). Feasibility versus commitment: SMEs' ownership strategy in China. <i>Journal of International Business Studies</i>, 44(1), 1–13.</p> <p>Yuan, M.B., Tan, Q., Sarkar, M.B. (2013). SMEs' entry, location choice, and firm performance: A study of Taiwanese business groups in FDI in China. <i>Journal of International Business Studies</i>, 44(1), 1–13.</p> <p>Yuan, M.B., Tan, Q., Sarkar, M.B. (2013). SMEs' entry, location choice, and firm performance: A study of Taiwanese business groups in FDI in China. <i>Journal of International Business Studies</i>, 44(1), 1–13.</p> <p>Waller, G., Prakash, L., de Siqueira, V., de la Torre, J. (2013). The impact of local level corporate governance on research and development. <i>Journal of International Business Studies</i>, 44(1), 1–13.</p>
Cluster 7			<p>Yuan, M.B., Tan, Q., Sarkar, M.B. (2013). SMEs' entry, location choice, and firm performance: A study of Taiwanese business groups in FDI in China. <i>Journal of International Business Studies</i>, 44(1), 1–13.</p> <p>Yuan, M.B., Tan, Q., Sarkar, M.B. (2013). SMEs' entry, location choice, and firm performance: A study of Taiwanese business groups in FDI in China. <i>Journal of International Business Studies</i>, 44(1), 1–13.</p> <p>Yuan, M.B., Tan, Q., Sarkar, M.B. (2013). SMEs' entry, location choice, and firm performance: A study of Taiwanese business groups in FDI in China. <i>Journal of International Business Studies</i>, 44(1), 1–13.</p> <p>Yuan, M.B., Tan, Q., Sarkar, M.B. (2013). SMEs' entry, location choice, and firm performance: A study of Taiwanese business groups in FDI in China. <i>Journal of International Business Studies</i>, 44(1), 1–13.</p> <p>Yuan, M.B., Tan, Q., Sarkar, M.B. (2013). SMEs' entry, location choice, and firm performance: A study of Taiwanese business groups in FDI in China. <i>Journal of International Business Studies</i>, 44(1), 1–13.</p> <p>Yuan, M.B., Tan, Q., Sarkar, M.B. (2013). SMEs' entry, location choice, and firm performance: A study of Taiwanese business groups in FDI in China. <i>Journal of International Business Studies</i>, 44(1), 1–13.</p> <p>Yuan, M.B., Tan, Q., Sarkar, M.B. (2013). SMEs' entry, location choice, and firm performance: A study of Taiwanese business groups in FDI in China. <i>Journal of International Business Studies</i>, 44(1), 1–13.</p> <p>Yuan, M.B., Tan, Q., Sarkar, M.B. (2013). SMEs' entry, location choice, and firm performance: A study of Taiwanese business groups in FDI in China. <i>Journal of International Business Studies</i>, 44(1), 1–13.</p> <p>Yuan, M.B., Tan, Q., Sarkar, M.B. (2013). SMEs' entry, location choice, and firm performance: A study of Taiwanese business groups in FDI in China. <i>Journal of International Business Studies</i>, 44(1), 1–13.</p> <p>Yuan, M.B., Tan, Q., Sarkar, M.B. (2013). SMEs' entry, location choice, and firm performance: A study of Taiwanese business groups in FDI in China. <i>Journal of International Business Studies</i>, 44(1), 1–13.</p>
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