The Otemon Journal of Australian Studies, vol. 32, pp. 93–110, 2006

Direct Investment and Japanese Subsidiaries in Australia

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Introduction

This research paper is based on a field study and a postal questionnaire survey conducted in April, 2004～September, 2005 period by three researchers, including myself as research coordinator and two other research assistants. We sent a questionnaire to 160 Japanese subsidiaries and collected information from 88 production and service subsidiaries established in Victoria (Melbourne), New South Wales (Sydney and Canberra), Queensland (Brisbane), Western Australia (Perth) and South Australia (Adelaide) (Table 1). Focusing to different types of strategies adopted, domestic market conditions, investment environment, competition, delegation of authority, and business performance, this paper investigates: (i) Japanese multinational investment in Australia; and (ii) recent developments and current status of Japanese subsidiaries in Australia. Although the research also included various other factors such as management practices of Japanese subsidiaries, production cost, production methods, product quality, organization structure, structural change, management system, production policy, product diversification, and supply chain of raw materials, these factors will be considered only in connection with recent developments, strategy and current status of Japanese subsidiaries in Australia. First half of this paper covers some theoretical developments on foreign direct investment (FDI), and the mid-part focuses to the concept of multinational investment with relevant Japanese FDI statistics, and the final part allocates to presentation of our research

Table 1　The Size of the Sample of Subsidiaries Surveyed

The Region	Production Subsidiaries	Service-Sector Subsidiaries
Victoria (Melbourne)	14(18%)	02(20%)
New South Wales (Sydney and Canberra)	31(40%)	05(50%)
Queensland (Brisbane)	15(19%)	02((20%)
Western Australia (Perth)	09(11.5%)	00(00%)
South Australia (Adelaide)	09(11.5%)	01(10%)
Total	78(100%)	10(100%)

findings on Japanese subsidiaries in Australia.

Japanese Multinational Companies

Subsidiaries of Japanese multinational companies play a major role in the Australian market. Most Japanese multinational companies have chosen the Australian market as one of their most attractive investment destinations. For Japanese multinationals, Australia is a potential market. In this study, first we search for management literature to identify a common definition for multinational companies. In the international management field, many definitions are available for multinational companies. For the purpose of our research, we have chosen the following definition: 'companies which have operations in more than one country.' Over the last 10 years, business activities of American, Europe, and Japanese multinational companies (MNCs) have significantly changed. These multinational companies expanding their business activities from developed countries to developing and less developed countries. Also they have identified various new growing markets world wide to expand their business operations. MNCs account for over 70 per cent of world trade. Multinational investment has grown at 13 per cent per annum during the last two decades.

The vast majority of MNCs originate in the United States, Japan, and the EU. These countries are also the main hosts to FDI, although the share of FDI in less developed countries has doubled in the early 1990's to 39 per cent. Over the last five years, these new investments flowed to China, South Korea, India, Brazil, ASEAN, Russia and Australia. Many people and international financial institutions have quite strong opinions about multinational companies. International institutions such as World Bank, IMF, and WTO tend to see MNCs as pioneers of free trade, globalization, and trade mechanisms by which national economies will be forced to liberalize.

The major factors contributed to companies to establish subsidiaries and operate internationally have researched over many years and cover a wide spectrum; indeed companies wanted to globalize their operations to remain competitive. For example, an increasing number of multinational companies undertake local manufacturing through joint ventures, licensing arrangements or 100 per cent direct investments for their new overseas subsidiaries. Multinational companies operate in over 100 countries and the economic power that they command is immense: according to one estimate, the 500 largest industrial multinational corporations account for 80 per cent of the world's affiliates; corporate headquarters for 500 multinationals are in 20 different countries; and, direct investment by multinationals from Europe, America, and Japan has increased rapidly.

Of course, the impact of multinational companies varies worldwide by industry sector. To take oil as an example, they command 30 per cent of global production and their market share in refining and marketing sectors accounts for approximately 60 per cent of world output. Similarly, the contribution of multinational companies' affiliates accounts for more than one third of the output of

Table 2 Strategic Objectives and Reasons to Invest in Australia

Strategic objectives	Percentage (%)
To establish a new market destination (Potential Market)	66
To gain competitive advantage	52
To strengthen local market base	39
To globalize current business activities	21
To decentralize research and development	16
Reasons to Invest	(%)
World class production standards	48
Low production costs (labor and materials)	30
Attractive legal framework for investors	22
Developed infrastructure	14
Easy access to the domestic and Asian markets	12
Low transportation cost	10
Low construction costs and low land prices	09
Corporate tax incentives	05

Note: Table 2 includes multiple answers

the manufacturing sector in certain countries. The importance of the world market place to multinational corporations also varies. The foreign sales share of total sales for the world's largest industrial corporations is approximately one-forth. This will naturally vary by industry (for example oil company rations are well over half) and by country origin. For many European-based companies, domestic sales may be less than 10 per cent of overall sales.

In 1960s and 1970s, American and European multinational companies played a major role in the Australian market. However, since around 1980s, with the liberalization of the Australian market and the implementation of Government's new industry policy, Australian market became an attractive place for Japanese multinational companies. Since 1980s Japanese subsidiaries started to play a major role in the Australian market. Now, next to China, the Australian market is most attractive investment destination to many Japanese multinational companies. In our research we asked from Japanese parent company managers why they chose Australia to invest. Also we asked to list out strategic objectives of their subsidiaries doing business in Australia. Table 2 shows the results.

Foreign Direct Investment

As a part of our research, we investigated the available literature and recent theoretical research on foreign direct investment (FDI). The traditional approach to multinational investment and international trade is based on the concepts of 'absolute' competitive advantage. In multinational business each country processes resources which have a higher value externally than in the domestic market. This can be due to surplus of production, high demand for resources, superior technology, higher labor productivity, and other factors enabling one country to 'trade off' these with other countries endowed with other complementary resource factors. Such economic exchanges, according to this approach, form market forces which determine the pattern of multinational business, operation of subsidiaries, and international market.

In *the Competitive Advantage of Nations,* Porter (1990) investigated, on an empirical rather than a theoretical basis, why some nation's firms succeed in multinational business and operations of subsidiaries. More specifically: why does a nation succeed internationally in a particular industry?; why is the influence of the nation of competition in specific industries or industry sectors?; and why do a nation's companies selected particular strategies? In solving these questions Porter has postulated four particular premises: the nature of the competition and the sources of competitive advantage differ widely among industries (and even among industry segments); successful competitors perform some activities in the 'value chain' outside their home country and draw competitive advantage from their entire worldwide network rather than from just their home base; firms gain and sustain competitive advantage in modern international competition through innovation; firms that successfully gain competitive advantage in an industry are those that move early and aggressively to exploit a new market of technology. Porter's argument is that there are four national attributes which shape the economic environment faced by domestic companies, and that they have a direct impact on the company's ability to compete globally. These four factors are: (1) firm's strategy, structure, and rivalry, (2) demand conditions, (3) factor conditions, and (4) related and supported industries.

According to Porter (1990), proponents of foreign direct investment tend to focus on five major effects of multinational investment on host countries: (1) *Multinational investment supplements domestic investment and leads to increased economic and business activities.* A country's growth rate is strongly influenced by past investment levels. Therefore, if the level of investment in a country is increased, the future output will be higher. (2) *Multinational investment provides host countries with much-needed foreign currency and technology know-how.* Many countries face a very precarious balance of payments' situation, especially countries with deteriorating terms of trade, high debts servicing costs and huge capital outflows. The initial flow of capital into the host country and the (presumed) increase in exports caused by the presence of multinationals have beneficial effects on the host country's balance of payments. The inflow of foreign exchange helps to reduce balance of payments deficits and allows host countries to import more goods and services from abroad. (3) *Multinational companies and their subsidiaries have very high business profit margins, so they generate large amounts of corporate and indirect tax revenue for host govern-*

ments, (4) *Multinational companies bring with them a host of managerial skills, business knowledge and (most importantly) technology information which are of immense benefit to host countries.* Neo-classical economic theory stresses the importance of technological advancement for economic development. However, to advance technology independently of other countries would require vast amounts of research and development expenditure on the part of indigenous companies. It is much cheaper and easier to allow MNCs to 'transfer' their technology by establishing subsidiaries, employing and training local people and forming linkages with the domestic economy. (5) *Multinational companies and their subsidiaries strengthen the globalization of the business.* In host countries multinational companies establish their production and marketing base, so they create the global competition. This competition will benefit the consumers in that market and other global markets.

Japanese Multinational Investment

Generally Japanese multinational companies choose to locate investment where rewards are greatest, market potential is high, risks and costs are minimum. As far as the cost factor is concerned, high corporate taxes, labor and utility costs have turned Japan into the most expensive country in which to business among nine industrial countries in North America, Europe and Asia. A comparative cost-of-business study conducted by KPMG LLP (2000) showed Japan with a cost index of 178.8 against the 100 base figure for the United states, which ranked seventh in the list. While the United States dropped from the third lowest-cost country in the previous study conducted in 2004, Japan remains the highest-cost country. Therefore, in the future Japanese corporations are more likely to invest in those foreign countries where the cost is minimum, market potential is high, and "other perceived uncertainties of doing business" are least. In the past, for Japanese multinational companies, access to cheap labor has been a priority. But increasingly, Japanese manufacturing companies invest in countries offering world-class production standards with low production costs (see our research findings in Table 2). Australia comes to this category. A 1997 report on *Asian direct investment in Australia* by a leading management consulting group in Singapore found that Australia was most favored by Japanese multinational companies, followed by China (including Hong Kong), South Korea, and Taiwan in Asia. According to this report, peaceful and stable business environment, industrial and investment policy, labor force, low production cost, potential market, technological advancement, and various other favorable factors in the market have contributed to rapid growth of Japanese investment in Australia.

In recent years, a growing number of Japanese companies have begun to expand their operations in the Asia Pacific Region, realizing that if they do not increase their Asia Pacific Network now, they likely will be left behind in the near future. One of the most important phenomena of the last three decades has been the expansion of Japanese business in China and the Pacific region including Australia. Today virtually all major Japanese multinationals have a significant share in business in the Australian market. A number of factors have contributed to this expansion. Improvement of infrastructure, rapid economic development in Australia, industrial and investment policy, trade friction between Japan and US in 1980s, the high value of Japanese Yen, high domestic labor cost, stagnation of the Japanese economy, and rapid globalization of business are the main factors that have directly contributed to this expansion.

In making multinational investment decisions, Japanese strategic managers consider three major factors. The first is the extent and nature of economic development in the host country. The modern era has witnessed unparalleled economic growth in Australia. Since the early 1980s capital and financial resources generated by this economic upsurge have contributed to the rise of Japanese multinational investment in Australia. Economic growth has also brought about a convergence among the Japanese multinational companies in terms of product demand and production methods. The second factor is a lowering of institutional barriers to international mobility. Since 1976 there has been a gradually declining trend in many of the institutional barriers impeding cross-border business activity. On a more global level, the General Agreement of Tariffs and Trade (GATT) has been instrumental in reducing tariff and quotas, as well as establishing rules and procedures governing international trade. The third factor is technology. Perhaps the most powerful internationalizing force of all has been the impact of modern information technology. Advancement in information technology and transportation are making easier, faster, and less costly to move data, goods, equipment, and people around the world. Business activities, such as managing employees and scheduling production in several locations, are more difficult and costly when conducted across borders and time zones. But new computer technologies are speeding up the flow of information, making coordination and control easier and cheaper. With the rapid advancement of technology, many Japanese companies have made efforts to strengthen their globalization process in order to achieve sales volumes necessary to cover soaring research and development costs.

Expansion of Japanese FDI

Japanese foreign direct investment (FDI) shows a drastic increase during the period 1996～2003 (Table 3 and 4). Prior to 1970 some regulations were imposed by the Japanese government on Japanese multinational companies to make certain controls on foreign capital introduction and direct investment. However, since early 1970s, with the implementation of more flexible trade policies, Japanese MNEs made their best efforts to enjoy a high degree of freedom in areas such as location of subsidiaries, resource allocation, import and export, production methods, recruitment of employees and directional changes. Further, in 1970s, some changes to trade and law such as liber-

Table 3 Major Destinations for Japanese Investment, 1996 and 2003, $US billion

Stocks as at 1996		Stocks as at 2003	
Unites State of America	435.7	United States of America	701.4
United Kingdom	96.8	Cayman Islands	199.5
Germany	82.6	Germany	149.3
Australia	63.5	United Kingdom	114.5
Netherlands	56.0	France	90.2
Canada	40.8	Netherlands	87.8
France	36.4	Italy	54.7
Belgium	32.0	Belgium	50.6
Sweden	27.0	**Australia**	41.7
Hong Kong	24.6	Canada	32.4
Total	895.4	Total	1522.1

Source: Australia-Japan Trade and Investment Links (Chapter 2)–Internet–2005

Table 4 Major Sources of Investment in Australia, 1993, and 2003, $US billion

Stock as at 30–6–1993		Stocks as at 30–06–2003	
United states of America	53.9	United states of America	172.7
United Kingdom	45.4	United Kingdom	164.5
Japan	33.3	**Japan**	32.0
Hong Kong	8.3	Hong Kong	23.6
Netherlands	6.1	Singapore	22.4
New Zealand	5.2	New Zealand	12.0
Switzerland	4.8	Germany	11.3
Singapore	4.7	Netherlands	10.9
Germany	4.6	Switzerland	10.7
Belgium	3.1	France	9.0
Total	169.4	Total	469.1

Source: Australia-Japan Trade and Investment Links (Chapter 2)–Internet–2005

alization of trade and investment, and the relaxation of exchange controls had a positive impact on Japanese multinational companies to increase their foreign direct investment world wide.

Before investigating the Japanese multinational investment in Australia, we observed the case of Japanese multinational investment in Asia and the United States in 1975～1985 period. Regarding the consumer electric appliances, electronics and automobiles, which form the core part of the investment in the United States and Asia by Japanese MNCs. In early 1980s, with the expansion of

Japan's direct export of final products caused the trade friction between United States and Japan and Asia and Japan. In U. S. the trade deficit recorded a new high, the value of U. S. dollar against Japanese Yen started to decline. In Asia, countries like Thailand started to boycott Japanese finished goods. But to certain extent the voluntary export controls of some manufacturing goods like automobiles by Japanese makers and some political and legal measures restricted Japanese finished goods export to U. S. and Asia. However, in 1980s Japanese MNCs, again gradually expanded the share in Asia and the United States through direct exports and direct investment.

During 1980～90 period, the US market became an essential market for the industrial and international business growth of Japan. During this period, Japanese exports including motor vehicles and electronic goods to the U. S. market increased rapidly. At the same time, Japanese multinationals established their subsidiaries in the United States and started production locally. Japanese automobile sector, for example, Toyota Motors gradually increased its local subsidiaries' production as a part of Toyota's production and marketing strategy in the United States. As a result of this production strategy, now many Japanese multinationals especially Automobile makers have gained the competitive advantage in the United States market.

However, the business risk was big in the automobile industry in the United States, for at least 100 billion yen investment was necessary for starting an integrated automobile manufacturing plant, and the Big Three especially GM and Ford, were still strong in the United States, although their strength was somewhat less than before. In the case of consumer electronic sector, the size of investment and employment was relatively small, and the competitive power of the U. S. makers of color TVs, DVDs, and Digital Cameras was weak. However, growing exports by the producers of low-cost appliances in Asia especially from China, South Korea, Taiwan, Malaysia, and Indonesia soon became a strong pressure on the market share of Japanese MNCs in the U. S. This strong pressure had a direct impact on Japanese MNCs to change or re-consider their existing international market strategy in the U. S. and the rest of the world. As a part of their new global strategy, Japanese MNCs chose Australia as a potential market for their direct investment.

Looking back on the development to date, the direct investment by Japanese multinational companies in Australia can be divided into the following two types, according to how they established the local production plants. (1) Type one is those made in Australia from 1970 to 1980 which started in New South Wales and further expanded to Victoria and other states. In the beginning the Australian government imposed various types of tariffs on imported goods to protect their own industries. Therefore, in such a closed market, Japanese multinational companies had no other choice than to begin local production to gain competitive advantage in the Australian market. In many cases, the local production plants took the form of the joint venture with local capitals. They first chose a survival strategy in the Australia market. For example, since a mass production system could not be established immediately, they were obliged to manufacture small quantities of many kinds of products. But with the expansion of each regional market like Sydney and Melbourne, the local competitiveness gradually grew, and at the same time some companies gradually increased their export volume, though some other companies are still based mainly in their domestic market. (2) Type two is direct investment made during the 1980s, 1990s and 2000s.

Asian industrial giants including China, South Korea, and Taiwan achieved five to eight per cent economic growth during the latter part of 1970s and 1980s, and succeeded in export-oriented industrialization. However, the drastic increase in exports to the U. S. market had a severe impact on exchange rates between the U. S. dollar and their own currencies (the local currencies appreciated against the U. S. dollar) and also, due to the increase in wages caused by the economic growth, the export competitiveness was gradually weakened. Therefore, the Asian countries like South Korea and Taiwan, while trying to expand their own domestic demand they gradually increased their export volume to neighboring Asian countries. They also promoted their direct investments in the U. S. and ASEAN countries. This investment strategy had a major impact on the direction of Japanese MNCs' foreign investment strategy. With the above situation as the background, the direction of Japanese MNCs direct investment changed to certain extent. While maintaining a considerable market share in the U. S. and Asian markets, many Japanese multinationals gradually increased their direct investments in Australia.

After 1980, Japanese direct investment in Australia developed firmly, centering on consumer electric appliances and electronics and automobiles. This is related to the fact that the economic development and the GDP growth in Australia in the 1980s were largely dependent on the growth in the manufacturing and value-added industries. Direct investment by Japanese multinational companies not only contributed to the economic growth of Australia, but also to the growth of manufacturing industry in different states of the country. Their contribution to the creation of the export competitive power in labor intensive industries is greatest.

The sharp development of the Japanese multinational companies' direct investment in Australia suddenly increased its speed due to the sharp rise in the yen following the Plaza Accord, which lead to the further appreciation of the yen in the early 1990s. At this stage, the Japanese multinational companies promoted their direct investment in Australia with a clear intention to form strongholds for the production and supply which would meet the fast expansion of the domestic market, and further, to make them the bases for the re-export to the assembly manufacturing industries in Asia. This also meant that they would serve as the key holds for the final product export to other foreign markets. The latter roles were significant in the strategies of division of labor between different products in response to the globalization of market, beyond the concept of local market-oriented strategy. This signifies that the Japanese multinational companies for the first time created and promoted their own strategy of globalization. Table 5 shows Japanese investment in Australia during the period 1997 to 2002.

Table 5 Japanese Investment in Australia 1997～2002 (A$ million) (a)

Total Investment	1997–98	1998–1999	1999–00	2000–01	2001–02
Japan	52,329	45,544	50,828	47,988	48,007
Total all countries	587,231	635,014	736,989	823,187	844,505
Direct Investment	1997–98	1998–99	1999–00	2000–01	2001–02
Japan	14,985	14,582	15,418	16,069	18,800
Total all countries	162,371	174,478	195,679	201,060	211,671
Portfolio Investment	1997–98	1998–99	1999–00	2000–01	2001–02
Japan	22,984	19,353	19,519	17,672	18,725
Total all countries	332,038	348,145	405,857	468,119	464,945
Other investment	1997–98	1998–99	1999–00	2000–01	2001–02
Japan	14,361	11,629	15,083	12,572	9,055
Total all countries	77,783	94,565	114,022	130,418	136,341
Financial Derivatives	1997–98	1998–98	1999–00	2000–01	2001–02
Japan	n.a.	n.a.	808	1,675	1,427
Total all countries	15,040	17,826	21,431	23,591	31,548

Source: International Investment Position Supplementary County Statistics (2003) ABS
(a)At the time of compilation, data for 2003–04 onwards were not available for inclusion. However, according to JETRO-Website, Japan's direct investment in 2002–03 decreased to A$ million 3,592 and in 2003–04, decreased further to A$ 2,891 million or 66.2 per cent decline (FIRB Annual Report).

As shown in Table 5, Japanese direct investment in Australia during the period 1997–98 was A$14,985 million. In 2000–01 the direct investment increased to A$16,069 million and in 2001–002 the total investment further increased to A$ 18,800 million. These figures show Japanese multinationals' increasing role in the Australian market during the period 1997–02 period. As shown in the Table 5, various other types of investments also increased rapidly during this period.

Ownership and Market Strategy

As shown above, Japanese multinational companies have increased their direct investment to strengthen their production capacity in subsidiaries in Australia. While some Japanese multinational companies are joint ventures with local companies, many other are mainly 100 per cent Japanese subsidiaries. Even in the case of joint ventures, the Japanese side usually maintains the majority of the capital, i.e. 51 per cent of the total investment. Naturally, Japanese multinationals hold control in making major decisions on production and sales targets, new product development, expansion of product capacity, directional changes, and policy decisions. However, there is a certain influence of local capitals in the strategy formation process. Even in such a case, it is assumed that local capital tends to exercise its influence on the distribution of achievements, such as dividends, rather than on strategy formation process. Needless to say, local executives or managers play a major role in the implementation of their strategy.

From our empirical survey, we identified three types of major strategies adopted by Japanese subsidiaries in Australia: (i) global-market oriented strategy; (ii) domestic and overseas market-oriented strategy; and (iii) local market-oriented strategy. These strategies are almost similar to strategies adopted by Japanese subsidiaries in East Asia (Okamoto, 1995). Number of subsidiaries adopted each strategy in the sample is as follows: global market-strategy is adopted by 42 production subsidiaries; local and overseas market-strategy is adopted by 15 subsidiaries; and local market-strategy is adopted by 11 subsidiaries. In the service sector, global market-oriented strategy is adopted by 8 subsidiaries, while local market-oriented strategy is adopted by 2 subsidiaries.

With regard to the ownership policy, global market-oriented strategy is adopted by 33 companies of 100 per cent ownership and 14 companies of majority ownership. Moreover, many of these majority ownership companies mark over 75 per cent ownership. Among the subsidiaries adopting local and overseas market-oriented strategy, there are no 100 per cent ownership companies. They are all minority and majority ownership companies, with a large number of the former. Regarding local and overseas market-oriented strategy adopted companies in contrast, a large number of them are majority ownership companies.

According to our observations, the ratio of export in these companies is as follows: The average ratio of export of global market-oriented companies is 49 per cent, that of local and overseas market-oriented strategy is 37 per cent, and local market-oriented strategy is 15 per cent. As far as these surveyed companies are concerned, we can say that their strategic intention has fully been realized. Especially, the average export ratio of the manufacturing subsidiaries with 100 per cent Japanese capital ownership is notably high. This is also true to the companies with majority Japanese ownership adopting global market-oriented strategy, which market 95 per cent. In connection with the above factor, it is interesting to note that the average number of operating years of the firms in global market-oriented strategy is 15 years, local and overseas market-oriented strategy is 10 years, and local market-oriented strategy is 8 years.

Adaptation of global market-oriented strategy is clearly observed in the fields of electric and electronics, followed by chemicals. It can be stated that many subsidiaries in the Japanese electronic industry in Australia are implementing the global market-oriented strategy. Chemical companies, on the other hand, produce and supply chemical related products to international markets in Asia and rest of the world. In contrast, in the automobile industry, there were no companies that adopted a clear global market-oriented strategy among the companies surveyed. Since the size of Australian automobile market is naturally medium scale (compared to growing big markets like China and India) and rapidly expanding, Japanese and other leading automobile makers in Asia and

Europe show interest to establish their own subsidiaries or new joint ventures with local capitals. Some Japanese auto makers like Toyota Motors have already established similar plants in Australia. In this case, we have yet to see when and how local production bases of Japanese automobile companies directly affect by the impact of globalization. It is true that Japanese subsidiaries have achieved a substantial production growth and profit level in various sectors including automobiles, assembling, research and development, and electronics in Australia.

Competition

Japanese multinationals have made tremendous efforts to transfer and root their competitive advantage to subsidiaries in Australia, which they have created and developed in their headquarters and domestic plants in Japan. To some extent, this includes the transfer of Japanese style management including advanced production techniques, production methods, decision making, total quality control (TQC) methods, total quality management (TQM), employees recruiting and selection methods, and research and development. In applying Japanese style management in subsidiaries, it has been altered to some extent and adopted according to local culture or hybrid conditions (Okamoto, 1995).

In relation to the transfer of Japanese-style management, it is important to note that a number of firms quote high quality, production methods, product innovation, and advanced technology. The competitive advantage of the products themselves seems to indicate the overall strength of competitiveness in quality, cost, price, and brand appeal, but it is often regarded to be related to high quality. In this sense, the task for many local subsidiaries seems to be to achieve superior competitiveness in products supported by advanced technology and production methods (Okamoto, 1995).

In connection with the above point, many subsidiaries give top priority to the introduction and establishment of advanced production technology which would assure the production of high quality products, and training and development of local employees and managers to meet this task. The strategic key of this is the transfer of production technology which has been created and refined by the Japanese parent company plants. Many companies indicated that this was one of the major factors of their competitive advantage. In such cases, the Japanese factories, especially the manufacturing assembly plants developed advanced production techniques that enabled to achieve conflicting difficult tasks such as reducing production cost and raising product quality. Through the latter half of 1980s and especially in the 1990s, Japanese companies suffered a great loss in competitiveness of cost, due to the sharp appreciation of the yen and high cost of production in the Japanese market, and these factors have promoted the move of transferring the Japanese production bases to other countries like China Asia, and Australia where the level of wages is relatively low (Okamoto, 1995). However, in this sense, the strategic task of achieving the cost reduction and high quality

Table 6 Priority areas for Japanese subsidiaries in Australia

Priority Areas	Percentage of Companies Surveyed(%)
Transfer and establish competitive advantage	76
Adaptation of Japanese style management	32
Transfer of Japanese Technology	31
Low cost high quality production	28
Transfer of production base	22
Long-term potential market	20
Improvement of brand image	16
Recruitment of low cost labor	12
Contribution to the Australian economy	06

Percentage figures include multiple answers

seems to have been achieved to some degree, centering on electronic, assembling, and semiconductors manufacturing plants. Table 6 shows priority areas for Japanese subsidiaries in Australia.

As shown in Table 6, for many Japanese multinationals, competitive advantage is the top priority area in establishing subsidiaries in Australia. 76 per cent of the companies responded to our survey said they need to strengthen their competitive advantage in the Australian market and world wide. Further, 32 per cent said, adaptation of the Japanese style management, including superior technology, and production system, in their factories is another major priority area.

In our survey we observed the relationship between the basic strategies and competitive advantage of Japanese subsidiaries in the Australian market. In the case of those implementing the global market-oriented strategy, their means to attain a competitive advantage are focused on the products, quality, production techniques, and cost, but those with the other two basic strategies are less focused. The relation between the different types of basic strategies and the contents of competitive advantage seems to develop with the passage of time, by giving feedback to each other, rather than having a direct relation of cause and effect. However, it can be said that the first task of the local subsidiaries, excluding those that created their competitive power through many years of operation, is to adopt effectively the competitive advantage that has been created and accumulated in the parent-company.

As far as strategic decision making is concerned, Japanese parent companies make important strategic decisions on global-oriented strategy and competitive advantage in the global and domestic markets. Generally, Japanese multinationals do not delegate the power and authority to their subsidiaries to make important decisions such as strategy, policy, new products development, and directional changes. Considerable similarities can be observed on this point in the companies with the same category.

In contrast with the global market-oriented strategy, naturally, the determining factor for the other two categories is how to cope with the local market conditions. This is especially noticeable in local market-oriented strategy. In the case of local market-oriented strategy, cost advantage, superior quality, and product diversification are also emphasized. This indicates that when they envisage entry into global markets from domestic market, they must take into consideration factors such as international competitiveness, cost advantage and fair price.

Competitive Advantage

What is the level of competitive advantage achieved by the Japanese subsidiaries in Australia? In order to measure and estimate the level of competitive advantage achieved by the subsidiaries, and correlation between competitive advantage and strategy adopted, we made a comprehensive analysis on competitive advantage of each subsidiary. A comparison is made with other Japanese subsidiaries in the same industry and remarks made directly and indirectly by managers in subsidiaries. Rather than depending on our questionnaire survey method, we chose a method of estimate based on comprehensive analysis and direct interviews by the research staff in order to achieve a relatively more objective result.

In applying a 10-point measurement scale, we measured the correlation between competitive advantage and three types of strategies adopted by Japanese subsidiaries. The average points earned by subsidiaries in each strategy are: global market-oriented strategy, 9.8; local and overseas market-oriented strategy, 8.2; and, local market-oriented strategy, 7.2 in the 10.0 point measurement scale. The conclusion of this analysis is, in connection with the points, those with the global market-oriented strategy, with a focus on major competitive advantage factors such as products, quality, production technology and cost, generally achieve a high level of competitive advantage. By contrast, those with local and overseas market-oriented strategy or local market-oriented strategy hold varying degrees of focus in seeking competitive advantage, and the level of competitive advantage is not so high.

Delegation of Power and Authority

In the final stage of this study we investigated the level of power and authority delegated by the Japanese parent companies to the local subsidiaries, which is related to the level of autonomous decisions made by the subsidiaries themselves in implementing, and sometimes planning their local strategies. Though the number of companies that answered to our survey varies, in general, Japanese parent companies have delegated the authority to subsidiaries to make decisions on recruitment and selection of technical and skilled work force including minor staff, training of local employees, selection, appointment and promotion of local managers, solving problems related to day-to-day operations, minor trade union disputes, employee grievances, internal transfers, and domestic product distribution. Sole decisions by the parent company or need prior approval are: appoint of top level managers and senior executives, research and development of new products, transfer of technologies, adaptation of new technologies, change of production process, increase or decrease of production capacity, and new investments on plants, machinery and equipments.

However, the extent of delegation of authority in Japanese subsidiaries is gradually changing. Many Japanese parent companies have realized the difficulties they face in making major decisions related to their subsidiaries. To avoid unnecessary conflicts between the management of parent companies and subsidiaries, there is a trend among Japanese parent companies to adopt ‘collective decision making’.

Conclusion and Final Remarks

The major factors contributed to Japanese multinationals to establish their subsidiaries in Australia are: the up-ward growth trend of the Australian market and the slow growth trend of leading world economies such as Japan, the Unites Sates and Europe. The trade conflict between Japan and the United States and Japan and Asian countries like Thailand also had an impact on Japanese multinationals to change their world market strategy from the United States and Asia to Australia (and Oceania). For Japanese companies, Australian market is a potential market. In 1960s and 1970s, American and European multinational companies dominated in the Australian market. However, since around 1980s, with the liberalization of the Australia’s international trade, foreign exchange market and the implementation of Government’s new industrial and foreign direct investment policy, Australian market became an attractive investment destination for Japanese multinational companies.

Although there were some set backs in the recent past, the flow of Japanese multinational investment to the Australian market continues. For most Japanese subsidiaries, Japanese market is an attractive market. As we found in our survey, many Japanese subsidiaries are doing well in the Australian market. Many parent companies in Japan have concrete plans and strategies to further strengthen and expansion of their investments in the Australian market to increase the production volume and the market share. The aims of Japanese subsidiaries’ direct investment in Australia are various. Some Japanese managers think Australian market is a fast growing market and some others think it is a new market destination for Japanese multinationals. Increasing Japanese subsidiaries’ domestic production capacity in the Australian market may lead to gain the competitive advantage. Some Japanese multinational companies have established their subsidiaries in Australia to gain the cost advantage in labor and materials. Further, Australian legal framework and corporate tax incentives are attractive for Japanese investors. Japanese subsidiaries' contribution to the Australian economy, trade, business and creation of employment is also increasing.

Many Japanese multinationals have specific plans for their globalization strategy. For Japanese multinationals, their own domestic market is important. However, there are some set backs in domestic market. For example, the sale of motor cars in the domestic market shows a considerable decline from 2002. This has a major impact on Japanese automobile industry. In the U. S. market, on the other hand, there is a steady growth in Japanese motor car sales. Japanese auto makers especially Toyota and Nissan are competing successfully in the U. S. market with their traditional rivals in the U. S. market such as General Motors and Ford. In 2005 Japanese auto makers recorded a five per cent sales growth in that market. For Japanese automakers, Australia is not an exception. As far as the Australian market is concerned, it is a potential market for Japanese multinational companies to remain competitive in the world market.

Generally, Japanese multinational companies choose to locate their subsidiaries in countries with low cost and minimum risk. Low corporate taxes, low labor, material and utility costs and low transportation costs have encouraged Japanese multinationals to establish their subsidiaries in Australia. In addition, factors such as, GDP growth, per capita income, growing domestic market demand, per capita savings, purchasing power, competitive advantage, economic, social and political stability are also major motivating factors to Japanese multinationals to establish their subsidiaries in Australia.

After 1980, Japanese multinational investment in Australia increased firmly, centering on consumer electronic appliances, electronics, and automobiles. This is related to the fact that the economic development in Australia in 1980s was largely dependent on the growth in the manufacturing industry. Direct investment by Japanese multinational companies not only contributed to the economic growth of Australia, but also to the growth of the manufacturing industry in different states of the country.

In Japanese subsidiaries we identified three types of specific strategies. Some Japanese subsidiaries have adopted global-market strategy, and some others have adopted domestic and overseas market-oriented strategy and local market-oriented strategy. Subsidiaries with global market-oriented strategies had a clear vision to expand their business activities to the world market.

As far as the decision making in Japanese subsidiaries in Australia is concerned, we can reach to the conclusion that generally, Japanese parent companies maintain their authority over the factors that determine the strategic direction of the subsidiaries, while operational decisions mainly related to the implementation of the strategy are delegated to the subsidiaries. It is difficult to draw a definite conclusion whether delegation of authority to Japanese subsidiaries in Australia is higher or low. However, local managers say they have no sufficient power and authority to make efficient decisions. During our field research, some Japanese managers in local subsidiaries also pointed out that the delegation of authority for them from the parent company is insufficient to make quick, flexible and efficient decisions.

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