European Transnational Corporations' Asian Strategy in the Electronics Field

By Kawate Kiyoshi

Policy change to one attaching importance to Asia

European countries were hit hard by a recession in the second half of the 1980s. The growth rates of their economies declined under such pressures as stock adjustment pressure following capital investment, and in 1993 plunged into the negative zone. The slump in the semiconductor and household electrical appliance markets became protracted and took on grave proportions.

In sharp contrast to a stagnant Europe, the Asian economies presented a dynamic picture. In Asian NIEs and ASEAN countries, the number of Japanese transnational corporation (TNCs) production bases for such products as audio and visual equipment and household electrical appliances increased sharply, and indigenous NIE companies, too, launched operations. As a result, Asia established its position as the world production base of such assembling and processing industries as the household electrical appliance industry. In more recent years, Asia has undergone a transformation into a major consumption market as a result of the high-growth rates of its economies and the consequent rise in the disposable income of its people.

European TNCs, while streamlining or restructuring their operations, have begun to view Asia from the standpoint of global enterprises. While slow in the past in making direct capital investment in Asia compared with Japanese and U.S. TNCs and indigenous NIE companies, European TNCs are now changing their strategy to one that attaches importance to Asia.

Among European TNCs, general electrical machinery manufacturers whose core business is in computer chips, such as Siemens of Germany, Philips Electronics of the Netherlands and Thomson of France, have already structured sales bases in Asia and are expanding their respective market shares. But they are not the only European TNCs that are expanding their market in Asia. The activities of heavy-duty electrical machinery manufacturers such as ABB Asea Brown Boveri of Switzerland and Sweden and telecommunications apparatus producers such as Nokia of Finland and Ericsson of Sweden also deserve attention. ABB Asea Brown Boveri is eagerly taking orders for electric power plants in Asian countries, such as China, India, and the ASEAN countries, where the construction of such plants is underway as part of developing economic infrastructure. Nokia is expanding its share in the Asian market on the strength of its dominance in digital cellular telephones based on GSM (a global system for mobile communications), a Pan-European digital cellular system. They have an edge in this area because GSM has been adopted in such regions and countries as Hong Kong, Singapore and China, as well as in Europe, and is now the most extensively used standard in the world for digital cellular telephones. The position of these European TNCs in Asia is now so strong that they are competing equally with Japanese and U.S. TNCs, which have longer of business presence histories in Asia.

Photo: SGS–Thomson Microelectronics

Localization of globalization: SGS–Thomson Microelectronics manufacturing facility in Singapore

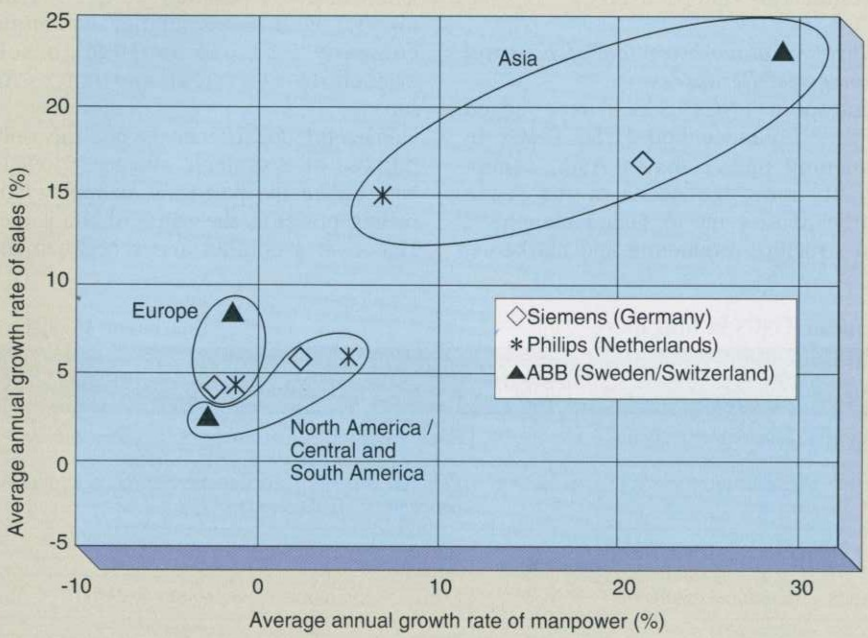
What are the peculiarities of the Asian strategies of European TNCs that are operating globally? First, they consider Asia to be a consumer market. They do not consider it to be merely a production base for goods to be exported to industrialized countries. Thus, they are procuring parts from the local market and localizing production and selling finished products in Asia. Secondly, they not only localize the procurement of parts and production and selling of finished products in Asia, but in line with their policies to streamline their global, overall operations, they are reallocating their managerial resources, which were concentrated in Europe in the past, in regions and business sectors where they foresee a high rate of market growth. Thirdly, they are attempting to penetrate the Asian market quickly by tapping and absorbing external managerial resources through such actions as strategic alliances and mergers and acquisitions (M&A).

In what follows, I will describe the activities of European TNCs that are practicing global strategies and establishing a business presence in Asia. Specifically, I will look more closely at the activities of Siemens, Philips Electronics and ABB Asea Brown Boveri as examples of Asian operations by such TNCs.

Shift of managerial resources to Asia

Figure 1 shows the average annual growth rate of sales and the number of employees, region by region, at Siemens, Philips Electronics and ABB Asea Brown Boveri from 1994 to 1996.

Figure 1. The growth rate of operations of three major European electronics TNCs by region (1994—1996)



Sources: Compiled from the annual reports of the three TNCs.
Note 1: Asia includes Japan, and in the case of Siemens and ABB Asea Brown Boveri, also includes Oceania.
Note 2: The definition of the regions is based on those given in the annual reports of the respective TNCs.

From this chart, it is evident that all the three TNCs' sales in Asia, including Japan, grew at an average annual rate of more than 15%. The growth rate of the number of employees in Asia differs from company to company, but is generally higher than in Europe, North America and Latin America.

The establishment of joint ventures in China is one cause of the growth of manpower at all three TNCs, but another important factor is the shift of head office functions from Europe to Asia, as in the case of Philips Electronics. Philips Electronics transferred the department that controls the production of computer monitors to Taiwan in 1996. Back in 1993, it transferred the headquarters function for its audio division to Singapore and expanded the division's staff. Thus, the transfer of administrative functions to the regional levels in Asian countries gathered momentum at Philips.

The third factor is the improved investment environment in Asia. In ASEAN countries and China, the investment environment has been improving because, in addition to a lower cost of labor than in Europe, technological levels have risen, incentive policies to attract foreign capital have been adopted, and progress is being made in the development of economic infrastructure. By 2000, Siemens intends to increase its staff in Asia and Oceania from 25,000 in 1996 to somewhere between 40,000 and 50,000, Philips Electronics from 67,000 to 70,000 by 1999 and ABB Asea Brown Boveri from 32,000 to 40,000–50,000 by 2000. All of them are expanding their manpower in Asia under medium- or long-range sales and investment plans.

In contrast, back in Europe, they are retrenching head office functions, stopping production of product categories that have little growth potential, and selling subsidiaries operating in deficit, and such endeavors to streamline operations are still continuing. Therefore, the transfer of managerial resources to Asia as a result of the stagnation of European economies is a policy course that TNCs have had to take.

Research & Development

Investment in research and development in Asia is also surging, along with the transfer of manpower and investment in plant and equipment. European TNCs have acquired surplus funds that can be invested in research and development as a result of the increase in their cash flow due to the retrenchment of their operations in Europe. In Asia, there is keen competition between multinational corporations and regional TNCs in the markets for products that have high growth potential, such as civilian equipment, computer chips and electric power plants. Computer chips in particular require constant research and development endeavors, because their life cycles are short and they quickly become obsolete. If European TNCs that have launched operations in Asia maintained their research and development departments in their home countries in Europe, they might fail to catch on to changing market needs or, if they did catch on in time, they still might lose their market shares to rivals because of the geographical distance and the difference in market characteristics between Europe and Asia. To prevent that, most European TNCs have established research and development centers and are making R&D investment in Singapore, where they have their Asian administrative headquarters. (Table 1)

As already said, investment in research and development in Asia by European TNCs has become possible through improvements in cash flow due to restructuring, and they have received an additional boost from R&D tax incentives extended by the host countries. Singapore and Malaysia in particular are following an avowed policy of reorganizing their industry from the labor-intensive type to capital and technology-intensive, and in line with this policy, they are extending tax incentives for investment in research and development. In addition, they are taking measures to raise the skill levels of their workers such as by means of human resources training systems implemented through joint endeavors on the part of the government and academia. Thus, efforts by the governments of Asian countries to build an educational infrastructure emphasizing technology are encouraging research and development investment by European TNCs.

Utilization and Absorption of External Managerial Resources

European TNCs, which have lagged behind Japanese and U.S. TNCs in launching operations in Asia, cannot quickly meet the needs of the Asian market if they try to secure manpower and structure production and marketing systems in the region by themselves. Moreover, in some countries, there are barriers to new entries in the form of restrictions on foreign capital. For these reasons, European TNCs have been tapping and absorbing external managerial resources by means of M&A and setting up joint ventures in order to quickly develop a market in Asia. In the past, business alliances in Asia were mainly strategic alliances between Japanese and U.S. TNCs. Recently, however, European TNCs have begun to forge strategic alliances with Japanese and U.S. TNCs that already have an established operational footing in Asia, and also with Asian companies, in order to quickly adapt themselves to the business climate in Asia. For example, Nokia concluded a sales tie-up in China with Marubeni Corp., a Japanese trading company, in 1995, and a sales tie-up for cellular telephones in Southeast Asia with a subsidiary of Keppel, a company of Singapore capital affiliation, in 1996. Electrolux of Sweden concluded an alliance with a second-tier wholesale company in Japan in 1996 to sell household electrical appliances in Japan.

Peaceful coexistence is not the only purpose of a strategic alliance. How to best utilize the partner's technology or selling power is the name of the game. Hence, if a conflict arises between the

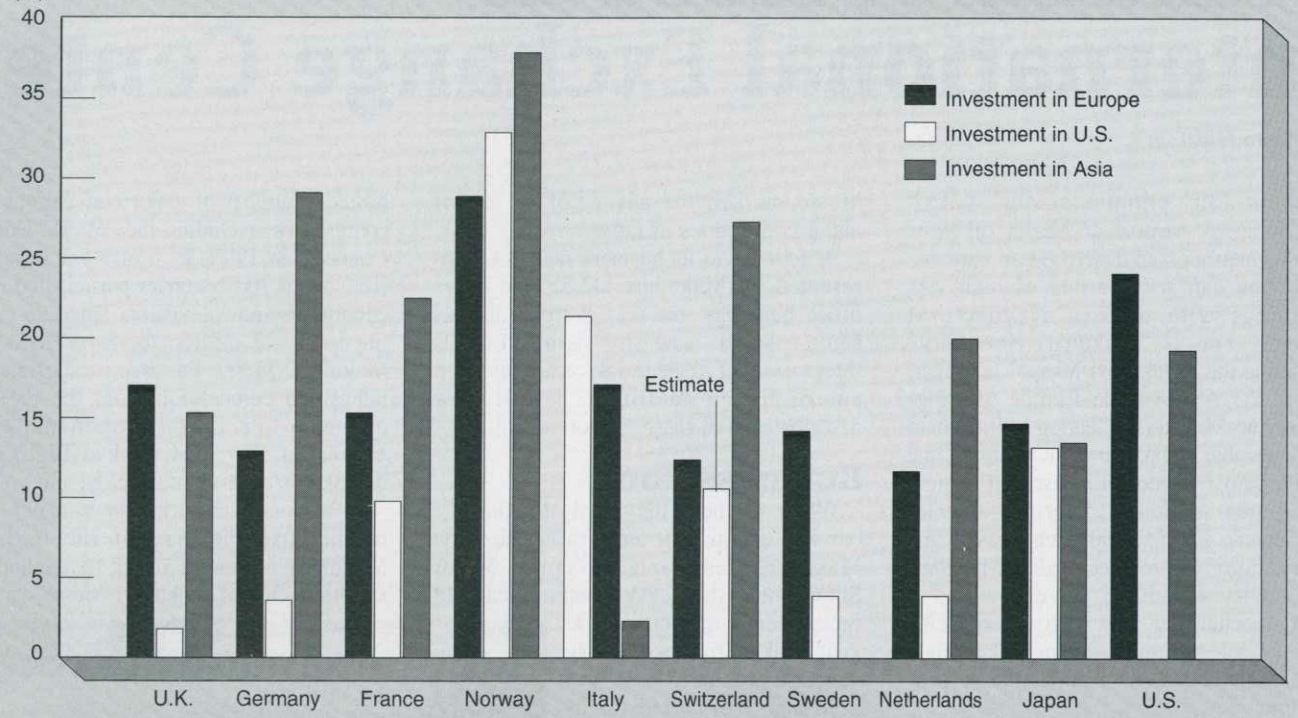
Table 1. Examples of R&D investment by European TNCs in Singapore

Unit: million $Singapore

Corporate name	Home country	Industry	Amount of Investment	Substance of R&D
Philips Electronics Asia	The Netherlands	Electrical machinery	15	Basic research in mechatronics, circuitry, etc.
ESEC	Switzerland	Electrical machinery	21	Plant engineering, process development, cooperation with HQ R&D division
Thomson Consumer Electronics Asia	France	Electrical machinery	45	Audio, communications
Philips Singapore	The Netherlands	Electrical machinery	35	Personal communications, sound systems
Rhone–Poulenc Chemical	France	Chemicals	N.A.	N.A.
British Gas Singapore	Britain	Energy	20	LNG technology
Ericsson Telecommunications	Sweden	Electrical machinery	N.A.	Telecommunications network

Note: The amount of investment is one based on each company's medium– or long–term plan.
Source: Compiled from articles in the January 1995–March 1997 issues of EDB "Singapore Investment News."

Figure 2. The annual growth rates of external direct capital investment by major countries by region (1990-1994)



Source: OECD: International Direct Investment Statistics Yearbook 1996
Note: Investment is on a stock basis.

parties or if there is a change in the company policy or objectives, the partner in the alliance will be changed. A typical example of this is the case of SGS-Thomson of Italy and France. In 1993, this company dissolved an alliance for OEM production with Oki Electric Co. and concluded development and production alliances with Mitsubishi Electric Corp. and a U.S.-affiliated company, as its concern shifted from DRAMs to the next-generation flash memories.

Future direction

In March 1996, the first Asia-Europe Meeting (ASEM) was held in Bangkok, and relations between Europe and Asia centering on business have become closer and stronger since then. In recent years, European Business Information Centres (EBIC) have been set up in ASEAN countries and India, with financial support from the European Commission, to back up European small and medium-size corporations with a consulting service in trade and investment, and the German Centre and the French Business Centre have been set up in Singapore. Also to open in Singapore in 1998 is the Nordic Centre, representing the business interests of the five northern European countries of Denmark, Finland, Sweden, Norway and Iceland. European countries are staging aggressive activities in Asia through close cooperation between industry and government. Major European TNCs often organize coalitions to undertake large-scale projects related to infrastructure in Asia, such as electric power plant projects, railway transport projects and telephone network construction projects, and in some cases skillfully approach the governments of Asian countries by offering loans from the export credit institutions of their home countries. Thus, it appears that European TNCs are trying to catch up with Japanese and U.S. TNCs by staging aggressive drives in Asia with the backing of their governments and of the European Union.

Asia today is an attractive market teeming with dynamism for growth. At the same time, it is a arena of keen competition among multinational corporations and regional TNCs. European TNCs, which have acquired strength by carrying out drastic restructuring, have hammered out their Asian strategies through a reallocation of managerial resources through the delegation of authorities to their regional bases and by adopting a speedy decision-making process. To Japanese and other TNCs, they have become rivals that cannot be ignored. JJTI

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