

Germany Looks East

By Arno Mock

No other countries in the world are so extremely dependent on world trade as Japan and West Germany. For this reason it must be our common goal to maintain free competition through the fight against protectionism. We should speak together not only about obstacles and difficulties, but about those solutions to our problems which are possible now. Our motto should be: cooperation instead of confrontation. We know that our countries' destinies depend on exports. Far more than production, what increasingly determines the entrepreneur's activities today is the sale of competitive products in distant, new markets.

With the growing trade imbalances in the EC-Japan-U.S.A. triangle, and the severe danger they pose to the continued existence of free world trade, the cooperation of Japanese companies with companies from the United States and Western Europe has become especially important. Things practiced in many industrial countries in the past, such as the opening of foreign markets by exports, have proven good in only a relative sense. Many Western enterprises have had disappointing experiences in export trade with Japan. Sales have remained at a comparatively low level and have developed only slowly even over the medium and long term.

In light of these experiences, some German companies have decided to take a more intensive approach to the Japanese market, experimenting with export or production joint ventures or even establishing their own production operations in Japan. But due to the particularities of the Japanese economic structure and occasional misunderstandings and problems in coordination, these efforts have not always proved successful.

Cooperation between German and

Japanese enterprises can contribute to a retrenchment of existing trade imbalances. The most recent figures available show that manufacturing cooperation between German and Japanese companies has in fact grown during recent years, but that there is still room for intensifying and enlarging such relationships. Technology transfers, licenses, manufacturing abroad, and joint ventures are playing an important role. But the frequently cited, and misunderstood, "carbon-copy export" surely is no alternative. In order to debate the possibilities of German-Japanese entrepreneurial cooperation, it is first helpful to consider the motives behind a decision to invest in Japan.

One thing should be made clear from the outset: the main precondition for cooperation between two companies is the expectation that it will be advantageous for both sides. This also means that the partners must be prepared to make con-

cessions for the sake of their mutual goal. German-Japanese cooperation must be pursued over the long term. Sales policy is, after all, a long-term strategy.

South Asian access

Given Japan's highly developed industrial structure and large, affluent population, it is certainly the most attractive market in East Asia, even after the beginning of economic liberalization in China. From the European company's point of view, the main motive for involvement with Japan is the desire to participate in markets and cash in on the growth potential of the Japanese economy, as well as that of neighboring countries in South Asia.

All economic analysis today proceeds from the assumption that South Asia will have some of the fastest growing markets in the world over the next two dec-



Arno Mock (second from the left) with business associates

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ades. Regarding worldwide economic development, the most recent figures for gross national product growth in Asia are impressive. For German industry, it is important to secure sufficient zones of influence in this area, in order to benefit more quickly than heretofore from this quick growth.

Due to market proximity, multiple relations deriving from history, and its great ability to compete internationally in processed industrial products, Japan holds an outstanding position in the region. And, in turn, the desire for greater market proximity, improved access to the dynamic growth markets in South Asia and, in the case of production joint ventures, possible cost advantages are the three essential motives for direct investment in Japan.

Besides the motivation, the ability of the interested Western enterprise and its products to compete is an inescapable determinant. Since for German enterprises, it is primarily important to enlarge market share in Japan, an export joint venture or contract-production will generally be most useful. Conversely, an enterprise without special competitive advantages will likely decide to found a production subsidiary. Certainly, that would be difficult without a Japanese partner. Only the great attraction of the market justifies the risk of actually founding a company in Japan.

If the market know-how of an enterprise in Japan is insufficient, a partner is indispensable. One needs to have specific knowledge of the Japanese market, and this knowledge must be filtered from a veritable flood of information.

If German industry hopes to secure a quantitative and qualitative position in world trade, German companies will have to strengthen their participation in this region. It is important to strengthen their presence and make it visible in anticipation of long-term yields.

Japanese partners the key

A look at the structure of the German economy shows the special position of small- and medium-sized companies. For these firms, cooperation with Japanese enterprises along the lines mentioned earlier would be preferable to founding a manufacturing subsidiary on their own.

If European manufacturers do not want to lose their role as important exporters of capital goods, they will have to stand their ground in Far East markets. Whether or not they can depends on a re-orientation of their corporate strategy.

Investment Exchange in Manufacturing between Japan and EC

(as of end of August 1985)

Britain	
Toshiba	Started VTR production in Britain, April 1984.
Furukawa Electric —Oxford Instruments	Established a joint venture in Japan for production of magnet systems, April 1984.
Nissan	Established a company in Britain for production of cars, May 1984.
Brother	Established a company in Britain for production of electronic typewriters, March 1985.

West Germany	
Nippon Air Brake —Robert Bosch	Established a joint venture in Japan for production of anti-slide brakes, March 1984.
Matsushita Electric	Started production of tuners for VTR and TV in West Germany, September 1984.
Sanyo Electric	Started VTR production in West Germany, April 1985.
Marubeni/Nippei Toyama —Rofin Laser	Plans announced for production of carbonic-acid gas laser machine tool components in Japan, July 1985.

France	
Sony	Increased the capital of subsidiary in France for production of VTRs, June 1984.
Ajinomoto—Orsan	Established a joint venture in the United States for production of lysine, October 1984.
Sumitomo Chemical —CDF Chimie	Established a joint venture in Japan for production of ethylene resin, January 1985.
Toray—ELF Aquitaine	Started production of carbon fiber in France, April 1985.

Italy	
Shinto Industrial —Refrattari Misano	Established a joint venture in Italy for production of lance pipes, November 1984.
Amada—Purima	Amada made capital participation in Purima, May 1985.

Belgium	
Fujimi Abrasives —D.B. International Holding	Established a joint venture in Japan for production of diamond tools, October 1984.
Daiwa Kokan—Tubel	Started production of lance pipes in Belgium, November 1984.

Source: Ministry of International Trade & Industry

Based on the realization that the center of economic growth has shifted from the Atlantic to the Pacific, export and investment opportunities must be judged from medium- and long-term points of view.

Participation in developing new demand requires that one be represented in the market with proven performance. From the point of view of a German enterprise, this can result in special opportunities. But risks also have to be considered, stemming from the specific structure of the Japanese economy.

One advantage of cooperation between German and Japanese enterprises is the potential for the flexible formation of joint ventures. According to our German experience, cooperation grows flexibly with the market; by this, the risks of the participant companies can be reduced in market development. Thus, a joint venture which in the beginning was a pure sales company can pave the way to full production by gradually distributing production licenses to the Japanese part-

ner. A lack of Japan experience can be compensated for by the advantages of mutual management and the additional inputs of resources and technical knowledge from the partner. However, one must first carefully deal with the differences in managerial method and imagination. Specific difficulties in the organization of distribution in Japan, for instance, make sales joint ventures appear especially interesting. German enterprises have found the hard way that establishing their own sales channels in Japan is difficult and very expensive compared with other OECD countries.

Cooperation with experienced Japanese partners, who can contribute their own distribution and supplier net as well as the necessary contacts, is often recommendable when penetrating the Japanese market. German industry needs a corresponding distribution organization there, as reliable supplies, quality, and service are important preconditions for a successful commercial undertaking. In-

vestment in the market is a precondition for success.

Small and medium businesses strong

Germany's economic order is based to a large extent on private initiative and on the availability of private capital. Highly qualified and specialized small- and medium-sized enterprises proved to be particularly stable and flexible during the 1970s. But today, growing work-sharing—connected with structural changes—makes it indispensable that the management of medium-sized industries work more in the international arena.

The success of many German enterprises proves that numerous companies have been able to master this process and bring this new dimension into their management. Nonetheless, one must proceed on the assumption that due to the shift in demand to overseas markets, new difficulties will arise for many medium-sized enterprises.

Medium-sized enterprises must take advantage of their flexibility and cooperate internationally. It is here that one can find good opportunities for German-Japanese cooperation.

International activities are not a function of a company's size. While big enterprises are strong in capital, technology, economic know-how, and market influence, small- and medium-sized enterprises have a good chance wherever high technology and flexibility are important and where innovations make for relatively low manufacturing and marketing costs. This applies especially to countries with a low degree of industrial concentration.

The pressures for adaptation and cooperation beyond national borders will become even stronger in the future for the medium-sized enterprise. Crucial points for cooperation can be found in distribution, service, acquisition, manufacturing, program adjustment, and research and development. They strengthen competitiveness in the greater market. Yet one must admit that it is not always easy to find the right connections and partners abroad. That especially applies to medium-sized industry.

For small- and medium-sized enterprises, cooperation above all offers access to resources, financing, and sales possibilities which would be closed to them without the contacts of the Japanese partners. Moreover, cooperation is important for the often quite difficult recruitment of suitable workers. Among the members of the OECD, Japan is again

unique in that qualified specialists and management personnel can be hired only with great difficulty and expense for a newly established foreign enterprise.

A further opening for German-Japanese entrepreneurial cooperation is in research and development of new products, either in joint ventures established especially for this purpose or as an element in a comprehensive production joint venture. Here, the real and temporal margin of information, arising from common research and development know-how, can also work to the partners' advantage in third country markets.

Prescription for success

The conclusions which German industry must draw from the indications of saturation in the domestic market, increasing import pressures and handicaps in exports are as follows:

- more efforts are needed in marketing in distant export markets, above all in South and East Asia;
- a stronger orientation toward innovation is essential;
- there should be increasing utilization of exports of know-how;
- medium-sized enterprises should utilize opportunities for international cooperation;
- manufacturing in export markets should be encouraged.

Suppliers can reap advantages via their Japanese partners which are usually accessible only to Japanese producers. Sales and/or production joint ventures also face risks in Japan, as everywhere, depending on the form of the joint venture and the intensity of cooperation. Yet despite all the skeptics, foreign investment today belongs in the international market strategy of any company. While it is no alternative to investment in the domestic market, it is a precondition for maintaining and gaining foreign markets, and thus the ability to compete internationally in the future. The reasons for foreign investment can vary. But here, it is not only cost, but sales-political considerations which are decisive. These investments are a part of sales strategy.

The risks of entrepreneurial cooperation can be reduced if the partners agree beforehand on as exact conditions and legal preconditions as possible, even if it is very difficult to reach agreement due to different mentalities. It is also essential that both partners cooperate on the basis of mutual confidence. As long as that is lacking, even fixed contract conditions have no value. As for the intention to cooperate, the choice of a partner is of the

Investment Exchange between Japan and EC (as of end of August 1985)

Investment in EC by Japanese Manufacturers

	No. of cases
Britain	39
West Germany	32
France	34
Belgium	14
Netherlands	15
Italy	12
Ireland	11
Greece	4
Denmark	1
Luxembourg	1
Total	163

Investment in Japan by EC Manufacturers

	No. of cases
Britain	5
West Germany	26
France	12
Belgium	1
Netherlands	9
Denmark	3
Total	56

(Capitalization: ¥100 million or more
Equity share: 50% or more)

Source: Ministry of International Trade & Industry

utmost importance. It is important to keep in mind the optimal size of the enterprise, market position, and, as already mentioned, the consensus on the enterprises' goals. Once a partner is chosen, the next step is to adjust the legal framework of the joint venture as precisely as possible to the goals and the level of cooperation.

Differences in German and Japanese corporate management and the characteristics of the Japanese approach to personnel management have also to be considered, be they concerning salary problems, principles of preferment or insurance conditions. Furthermore, language barriers, both oral and written, must be overcome, a task which is especially difficult for products involving complicated technology.

The advantages of entrepreneurial cooperation are all clear, at least theoretically. Therefore, we must ask why there has not been stronger cooperation between German and Japanese companies before this. Discussions on cooperation are only meaningful if the enterprises themselves are really prepared for them. It is important to clarify whether both sides are openhearted enough and prepared for partnership. It all boils down to the key question: how can suitable German and Japanese partners come together for the solution of common problems? ●