

# From Local To Global

— The Transformation of Japanese Companies —

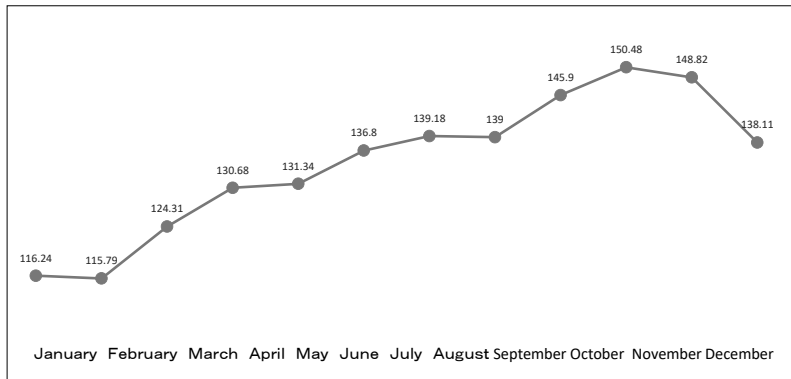
Naoto Iwasaki

Gerry Gannon

## 1. Challenging Exchange Rate

On October 20, 2022, the yen fell sharply on the foreign exchange markets, falling below the milestone of 150 yen to the dollar for the first time in 32 years<sup>1)</sup>. One month after the government and the Bank of Japan (BOJ) launched a large-scale intervention to buy the yen, the yen has weakened further by about 10 yen from its post-intervention high, and the limits of the intervention's effectiveness were visible. The yen has weakened over the past six months mainly because the

Figure-1 Exchange rate of yen in 2022



Source: Bank of Japan (Tokyo Market)

BOJ, led by Governor Haruhiko Kuroda, has been unwilling to address the Japanese economy's inability to break free from its dependence on low interest rates. By January 2023, the yen fell as low as 129 yen, but this did not mean that the yen's depreciation trend had been improving. In fact, the exchange rate was still hovering around 130 yen after February 2023<sup>2)</sup>.

Looking back some 30 years ago, in 1990, just before the collapse of the bubble economy, the domestic market was reveling in the bubble economy, many Japanese manufacturers were expanding their business to markets around the world with high quality products and low prices. The momentum of this expansion was so strong that it even surpassed that of global companies from advanced Western countries that had once dominated world markets. At that time, Japanese manufacturers accounted for almost half of the world's automobile production in the automotive industry, and in the semiconductor industry indeed, most of the world's top 10 manufacturers were Japanese with a market share of over 50%. It is undeniable that the strength of Japanese companies was due to the relative

Figure-2 Exchange rate trends (1971 / 1990)



Source: Bank of Japan (Tokyo Market)

depreciation of the yen against the dollar. After World War II, the yen started at a fixed exchange rate of 360 yen to the dollar, but gradually appreciated when a floating exchange rate system was introduced with the Nixon Shock in 1971. More than 10 years later, in the fall of 1985, the Plaza Accord was reached at the G5 (G5 Finance Ministers' Meeting), which led to a rapid appreciation of the yen.

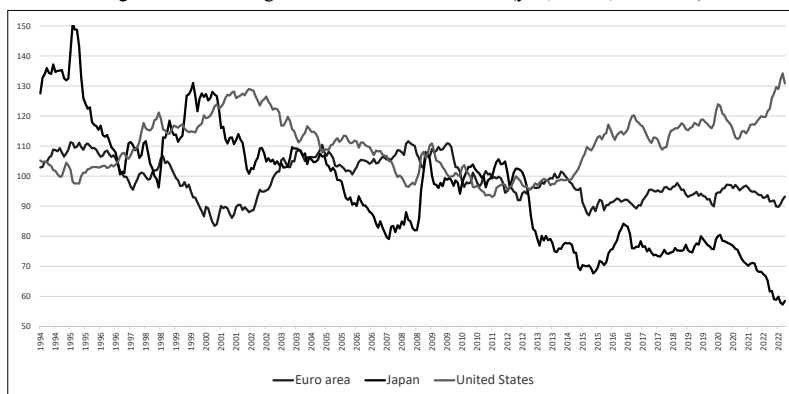
Domestic demand and exports have supported the growth of Japanese companies through the period of rapid economic growth and into the 1970s. The growth of Japanese companies was ensured by the export of excess production, resulting from the realization of productivity gains. Although the yen appreciated as high as 250 yen to the dollar in the 1980s, the relative depreciation of the yen continued, and Japanese manufacturers maintained their international competitiveness. The Plaza Accord (1985) was a manifestation of the sense of crisis and opposition of the Western industrialized countries to Japan's potential "solo victory". After the Plaza Accord, the yen dropped from 235 yen to the dollar by about 20 yen, and a year later it was trading at the 150 yen to the dollar. This rapid appreciation of the yen caused a significant "recession" in the Japanese economy, but in 1987, the economy turned around from its recession and so began a rapid expansion of domestic demand. The so-called "bubble economy" then plunged the Japanese economy into the era of its final banquet.

As is well known, the yen's depreciation acted as a positive contributing factor, discouraging imports (as they became more expensive) whilst encouraging exports which had the impact of making Japanese produced goods cheaper in world markets. The continued sharp appreciation of the yen, which had driven Japanese manufacturers, who throughout the postwar period had been pursuing efficiency in their production systems at domestic bases, into a corner yen appreciated worked against imports. As a result, many Japanese manufacturers were forced to make major changes in their strategies. In just five years, Japanese companies had

dramatically transformed their overseas operations, with the overseas sales ratio and overseas production ratio on the rise, export ratios on the decline, and the ratio of foreign employees and local procurement of funds on the rise.

In the 30+ years that has passed, the internationalization of Japanese companies has been affected by exchange rates that have swung widely from 70 yen to 250 yen to the dollar. The exchange rate, which had been relatively stable at around 100-110 yen over the past several years, has now suddenly weakened significantly. Although it is expected that the yen will eventually return back to a higher level, the pandemic, which is now in its third year, as well as Russia's invasion of Ukraine, have caused prices of oil, LG, and other resources and foodstuffs to soar, adding another layer to the uncertainty of the global economic outlook. Then, the double punch of the U.S., UK, EU and Canada raising interest rates to counter inflation and the yen's depreciation has had a major impact on Japanese society. How will the Japanese economy, Japanese companies, and Japanese society escape from this slump? It is becoming increasingly difficult to give a precise answer. The simultaneous and unpredictable events around the

Figure-3 Exchange rates from 1992 to 2020 (yen, dollar, and euro)



Source: BIS effective exchange rate

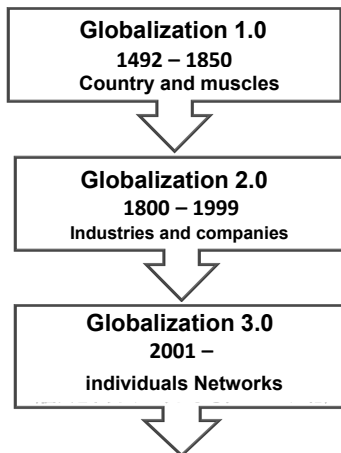
world are becoming more and more intertwined and complex. What is certain and unquestionable is that they are closely related to the high degree of globalization.

In this paper, we would like to explore the essence of the evolution of internationalization and globalization of economic society and corporate activities, which we have seen, heard, and experienced firsthand, and attempt to gain useful insights for the future. First, let us examine the evolution of globalization and consider the changes in the international community from the Showa period to the Heisei period, with respect to Japanese companies, how Japanese and global companies have developed their internationalization and globalization in this context, and what the situation is now.

## 2. Globalization 1.0, 2.0 and 3.0

American journalist and three-time Pulitzer prize winner, Thomas L. Friedman in his book “The world is flat,” classifies the past globalization into three major eras: “Globalization 1.0,” “Globalization 2.0,” and “Globalization 3.0<sup>3)</sup>”. In this

Figure-4 Three eras of globalization



section, we will examine the development process of globalization according to these categories.

### (1) Globalization 1.0 and Globalization 2.0

According to Friedman, the first phase of globalization, Globalization 1.0, lasted about 300 years from 1492 to roughly 1800, when the Italian adventurer Columbus (Christopher Columbus) set out on his voyage and trade between the Old World and the New World began<sup>4)</sup>.

Throughout this period, the development of navigation technology made it possible to operate ships between Europe and the New Continent, which contributed to reducing the size of the world. As European nations of the time expanded their territories by acquiring colonies, they were the suzerain states of those colonies, and used the excuse of “in the name of trade” to expropriate them. Then, in the 19th century, states began to extend their reach not only into international trade but also into the financial arena. During this period, the state took the lead in the era and promoted globalization of “physical power”; arm power, horsepower, wind power, and steam power.

Representative economic theories that explained economic activities at the dawn of such this globalization were Adam Smith’s “Absolute Dominance Theory”<sup>5)</sup> and David Ricardo’s “Comparative Dominance Theory”<sup>6)</sup>. Free trade theory, based on those ideas, primarily sought to elucidate why international trade takes place, with an emphasis on nation-centered globalization. Globalization explained by these classical theories evolved to a new stage with the rapid technological progress brought about by the Industrial Revolution that commenced in England in the late 18th and early 19th centuries.

This is the start of the era of “Globalization 2.0.” That period has lasted from approximately 1800 to 2000. This period included the Great Depression, two

world wars, and the Cold War era and its fall. Friedman notes that the power base for promoting globalization during this period was the industrial societies or corporate activities of certain economically dominant and advanced countries and regions. The economic power of a few advanced regions has dominated the last 200 years. The first was the “Pax Britannica” centered on the United Kingdom, followed by the “Pax Americana” centered on the United States, and then the “Trilateral Era” centered on the major advanced nations of Japan, Europe, and the United States.

During the period of “Pax Britannica” from the mid-19th century to the early 20th century, the United Kingdom grew into a hegemonic nation through colonization under the banner of free trade, backed by the economic and military power it had acquired through the Industrial Revolution. However, the two world wars in the first half of the 20th century destroyed that system. The United States replaced Great Britain at the center of the world economy. It gained economic superiority through the expansion of exports to the allied forces and the full-scale development of motorization, and greatly expanded both its economic and political as well.

The first half of the “Pax Americana” era was a difficult period consisting of the global financial depression that began with “Black Thursday” on Wall Street on October 24, 1929, the resulting World War II and the subsequent Cold War<sup>7)</sup>. The U.S., as the victorious leader and hegemonic power, accounted for nearly 50% of the world’s GDP immediately after World War II and still exceeded 30% in the late 1960s. The war spending demands of the Vietnam War beginning in 1965 forced a slowdown in the U.S. economy, followed by the Nixon Shock, the collapse of the Smithsonian Institute, and the first oil crisis of 1973. On the other hand, Japan and Western Europe experienced an economic revival around 1980. The relative decline of the U.S. economy and the position of U.S. companies led to

the collapse of the hierarchical structure of the world economy with the U.S. at the top. As a result, the world shifted from a unipolar world of “Pax Americana” to an era of “Trilateral world” consisting of Japan, the U.S., and Europe.

From the late 1980s to the early 1990s, the opening door of China to the West, the collapse of the Berlin Wall, and the dissolution of the Soviet Union eliminated the Cold War structure that had impeded trade and capital movement for nearly 50 years since World War II. In addition to the development of technology, the establishment of the World Trade Organization (WTO) led to a further expansion of international trade and foreign direct investment, which brought about major changes in market and competitive structures. This is a transition in the economic environment on a global scale not seen before.

Rapid technological innovation in the field of information and telecommunications has led to a quantitative and qualitative increase in the return of information on a global scale, as well as an increase in the speed of that information flow, thereby advancing the information society on a global scale. This has not only increased the information sensitivity of the market, but has also made it possible for companies to conduct business beyond the constraints of time and space. The homogenization of the world has been promoted through the global mass media, and new business opportunities have been created across time zones.

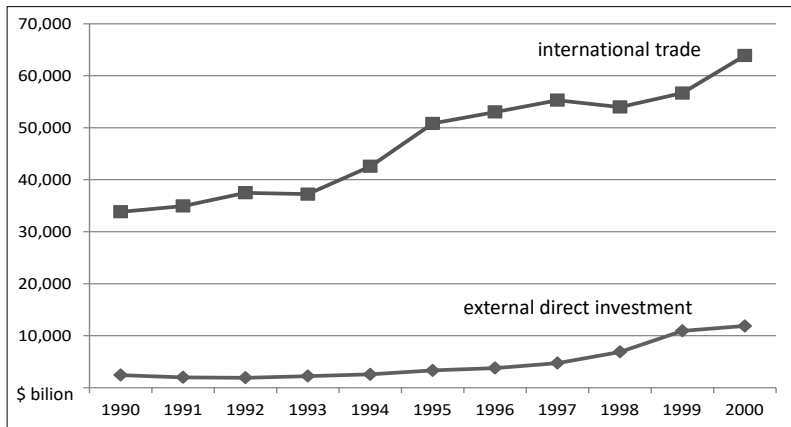
Thus, as the internationalization and globalization of corporate activities progressed, deregulation also progressed in developing countries in Asia and Latin America, and resistance to accepting direct investment from developed countries began to wane. Changes in the economic environment, due to information technology and deregulation on an international scale, have spurred the “borderless economy,” and companies from around the world have developed their businesses on a global scale, greatly advancing the unification and homogenization of the world market.



On the other hand, in the 1990s, economic integration was promoted on a regional basis, including EU integration, the free trade agreement (NAFTA) among the U.S., Mexico, and Canada, and the “growth triangle” concept among Southeast Asian countries. Such moves toward regional market integration (regionalism) and the introduction of market economies in former socialist countries have led to the expansion of regional markets and stimulated regional economies. At the same time, the trend toward “border-full,” which is the elevation of boundaries between specific regions and specific countries, began to surface among developed countries, as seen in the filing of anti-dumping bills against Japanese firms and the passage of local contest bills. These two developments were opposing vectors and resulted in the diversification and heterogenization of the global market.

In short, looking at the international market from a macro perspective, it has brought about a complex situation, that is fraught with contradictions: “market unification and homogenization” is progressing due to “borderless,” while at the same time “market diversification and heterogeneity” are progressing due to the completely opposing forces imposing full border barriers of protectionism. This

Figure-5 Change in total international trade and foreign investment (1990-2000)



significantly affected the business development of all companies acting in the global marketplace.

## (2) Ten factors driving “Globalization 3.0”

The “Globalization 3.0” era came after “Globalization 2.0”. Friedman pointed out that the era of “Globalization 3.0” would arrive after dramatic changes brought about by the world’s social and economic conditions commencing in the early 1990s, as well as by technological innovation, namely globalization and ICT, which have laid the groundwork for a “flat world”. In other words, the following 10 factors have brought about dramatic changes.

The first was “the fall of the Berlin Wall on November 9, 1989.” This brought an end to the battle between the two major economic systems, capitalism and communism. At that point, governance seemed to have become dominated by a free-market orientation, that valued democracy and consensus. The second was “the advent of the Internet.” Anyone with access to the Internet could receive digital content on anything located anywhere on the Internet, giving rise to the “virtual world”. The third was “the birth of software that enabled collaboration.” This has thought to have led to the evolution of workflows, which in turn gave rise to the other six factors.

The fourth factor is “uploading.” This allows individuals or self-generating communities to upload files and disseminate content without going through a hierarchy of organizations and institutions. The fifth, is “outsourcing.” This created new possibilities for collaboration and horizontal value creation in various businesses. The sixth factor, “offshoring,” has benefited China, which has become the “factory for the world,” but has also led to the current struggle for supremacy between the U.S. and China.

Three of the remaining factors are “supply chain,” “insourcing,” and “in-

forming,” which can be referred to as products of informational progress. And the last factor, which Friedman calls “on steroids,” refers to the potential for new technologies to emerge in the midst of this technological progress. At the same time all of these factors taken together result in constant innovation, which in turn creates further change.

Friedman’s argument is that these 10 factors have shrunk the size of the world map and promoted the “flattening” of the world, ushering in the era of Globalization 3.0. However, Friedman’s view of Globalization 3.0 is based on economic and social changes up to around 2007 and does not take into account the factors that have transformed the international community since then. We will discuss these aspects later, and look at how Japanese companies have acted and globalized in the evolutionary process of Globalization 2.0.

### **3. Globalization 2.0**

If we project the three phases of globalization onto the history of the Japanese economy and the internationalization of Japanese companies, the relationship between Japanese society and the international community generally overlaps, particularly for the period after Globalization 2.0. Let us now examine the process of internationalization of Japanese companies in the period of Globalization 2.0.

#### **(1) The dawn of internationalization**

The corporate behavior that forms the first phase in the developmental stage of internationalization of Japanese firms is imports. The Globalization 2.0 era in Japan, which began in the Meiji Era, started with imports for the procurement of raw materials. For Japan, where the supply of resources was difficult domestically, imports were an essential part of internationalization in promoting industrialization. Product imports were also essential in terms of technology

introduction. As Japan was left behind in the world's technological development due to its isolation from other nations, inviting engineers and imitating imported products were the means of introducing technology in a wide range of fields, in order to acquire technological information from overseas. This has not changed, and internationalization is still extremely important for the introduction of designs and exchange of ideas.

The phase of internationalization that follows imports is exports. Exports to expand sales markets have played an important role in strengthening the international competitiveness of Japanese companies. Under the national policy of promoting exports, general trading companies played a leading role, and during the same period, indirect exports were the mainstay of these companies. The advantage of this was that manufacturers did not need to invest directly in the local market and could use their sales networks of general trading companies to expand sales channels. In particular, indirect exports were sufficient for products such as raw silk, cotton cloth, steel, and chemical fertilizers that did not require brand differentiation or advanced technical explanation.

However, as Japanese manufacturers gained economic strength and became able to invest in their own sales, the benefits of indirect exports began to diminish. This is because indirect exporting, which involves an intermediary between the manufacturer and the market, makes it difficult to respond to customer needs and may even impede product differentiation. Although general trading companies have a broad sales network, it is difficult for them to provide sufficient support, such as after-sales service and technical service at the point of sale. In other words, indirect exports are effective when the value of product exports as a percentage of total sales is small, but as the market expands and sales increase, the disadvantages become greater.

However, this does not mean that the role of general trading companies has

diminished even in the current era. In fact, the power of general trading companies with their global network and significant information-gathering capabilities, may be said to be even greater than ever before.

## (2) Period of internationalization and its development

In the 1960s, automakers and home appliance manufacturers aggressively established sales subsidiaries in developed countries. By establishing their own sales networks, they were able to increase their sales volume and link to domestic demand in Japan, thereby establishing a system that ensured economies of scale. Equipped with innovative production technology and production facilities capable of mass production, Japanese manufacturers entered international markets with surplus products that were surplus to the domestic market could not be handled in the domestic market.

At the same time, in order to secure future trading areas and brand status, the company developed its business by establishing production subsidiaries through mergers with local companies in developing countries. At the same time that they expanded overseas by establishing sales companies, mainly in developed countries, they also promoted passive overseas expansion in accordance with local government policies, mainly in developing countries. For example, Nissan Motor established a sales subsidiary, NMC-USA (Nissan Manufacturing Company-USA), in the U.S. in 1963 and switched some of its indirect exports to direct exports. At the same time, for in Taiwan, Nissan established a joint venture with a local company and started production using so-called knockdown (KD) production system or pure assembly method, in which parts are exported and assembled locally<sup>8)</sup>.

Some of the companies that began local production in developing countries were more strategic, aiming to build competitive advantage through cost reductions through reduced transport costs of raw materials and products, tax

benefits, and lower wages costs. Mabuchi-motor which had maintained a high 55% share of the global small motor market, began production in Taiwan and Hong Kong in the late 1960s, and by the mid-1980s its overseas production ratio had reached 98%. Canon, which had been exporting cameras to the global market, also began local production in Taiwan in 1970, taking advantage of the lower labour costs. Indeed, a number of manufacturers that had been developing local production in developing countries since the 1960s<sup>9)</sup>.

### (3) Expansion period of internationalization

Many commentators consider that the first oil crisis that hit the world in the early 1970s propelled Japanese companies onto the global stage. And the belt-tightening management promoted by many Japanese companies in the latter half of the 1970s, was undoubtedly successful<sup>10)</sup>, and the reputation of Japanese manufacturers' products such as home appliances and automobiles in the international market rapidly increased and the market expanded. However, Japan's export surpluses and accumulated surpluses became the target of significant criticism in the U.S. and advanced European countries. This was by many considered just "Japan bashing". The business model of establishing sales subsidiaries in Western countries and exporting high-quality, low-priced finished products manufactured in Japan began to show its limitations, and companies were required to move to the next stage of internationalization. For example, Nissan exported only 1,300 vehicles to the U.S. in 1959, but by 1977 the export ratio exceeded 50%, reaching 61% in 1985<sup>11)</sup>.

Faced with such Japan-bashing, Nissan established a local subsidiary in Smyrna, Tennessee in 1980, and commenced local production in 1983, reaching a cumulative production volume of 100,000 units by the following year. By 1992, the company had expanded its annual production capacity to 440,000 units.

## From Local To Global

Similarly, Honda, which established a local subsidiary in Ohio in 1978, began local production in 1982 and had an annual production capacity of 600,000 units by the early 1990s<sup>12)</sup>. Toyota, which started local production later than these two automakers, established NUMMI (New United Motor Manufacturing) as a joint venture with GM in 1984 and began local production, but it was not until 1986 that it established its own local production system in Kentucky with an annual production capacity of 50,000, units and by 1996, it had achieved an annual production capacity of 850,000 units<sup>13)</sup>.

Once overseas production reached high volume levels, it became very challenging for export departments alone to handle overseas operations thus, it became necessary to organize a department capable of managing overseas operations in order to secure knowledge and management know-how and transfer this related knowledge back to manufacturing. However, Japanese companies also tried to transfer and establish production management methods and know-how, as well as management style and culture, as they had implemented in Japan. Therefore, most of the decision-making was done by the head office, and internationalization was promoted under a system in which the head office took the lead in all aspects of raw material procurement and financing. However, as the business grew and expanded, it became more difficult to control. Therefore, the international business department was established to provide support for exports and integrate, overseas production, technology, and know-how effectively.

The international business divisions would be positioned the same as other business divisions, and the entire activities related to overseas operations would be concentrated there. In addition, as overseas production became more geographically dispersed and the number of subsidiaries increased, it was common for the division to be reorganized from a function-based organization to a region-based organization. However, as the dependence on other domestic divisions for

R&D information, such as manufacturing technology and technology development, increased, the success or failure of internal interdepartmental communication became an important factor in the success of overseas operations.

The typical pattern of Japanese manufacturers during this period was a “tripolar international division of labor,” in which product development was carried out in Japan, products developed in Japan were manufactured in Southeast Asia where labor costs were much lower, and finished products manufactured there were exported to developed markets in Europe and the U.S. In the mid-1980s, Uniden, which had achieved rapid growth in the communications equipment field, attracted attention. Uniden, which attracted attention in the mid-1980s for its rapid growth in the telecommunications equipment field, is a typical mid-sized company that achieved significant success with such an internationalization strategy. Hitachi, a major electronics manufacturer, also tried to shift to an internationalization strategy by exporting parts for low value-added, low-cost versions of white goods such as refrigerators, which were manufactured in Southeast Asia and then imported to Japan. In the late 1980s, however, rapid economic growth in the Asian NIES countries of South Korea, Taiwan, Hong Kong, and Singapore caused labor costs to rise significantly, making it difficult to maintain such a system, and there was a move to relocate main factories to China and Vietnam, where labor costs were lower.

On the other hand, in the late 1980s, some companies actively established a “mutually complementary international division of labor” system, in which production bases scattered around the world were organically linked to complement each other. Nippon Electric (NEC), the world’s largest semiconductor manufacturer at the time, drastically reduced domestic production of 256MRAM, which has low density, and expanded imports from the U.S., while switching to production of 1MDRAM and 4MDRAM, which had high density in Japan.



Similarly, Sony has established an international division of labor system whereby 1MSRAM silicon wafers are processed in the U.S., assembled in Thailand, and imported back to the U.S. as products. Hino Motors also started supplying bus parts from its Indonesian plant to its Malaysian plant in earnest and began to make multiple use of its overseas bases in Asia and Oceania. In this way, the division of labor was gradually established on a global scale.

#### (4) From internationalization to globalization

However, the situation changed drastically when Japan's bubble economy burst. Many Japanese companies that had been staking their claim on the global market saw their power greatly diminished. Japanese manufacturers, which had gained a competitive advantage through hardware and process technologies, began to fall behind their Western counterparts, which had demonstrated their power by taking on the challenge of innovation and creating new business models. The collapse of the bubble economy in Japan coincided with a period of decline for many Japanese companies, as if the business rules of the past were no longer applicable, and they were unable to find a way to revive their businesses to their previous level of success.

In the mid-1990s, the financial Big Bang wave swept through Japan's financial markets, throwing them into chaos. With the entry of foreign firms, global competition suddenly became full-blown in the domestic financial market. Major banks and securities firms, which had enjoyed the bubble economy in a convoy-style structure centered on former zaibatsu groups, were eliminated one after another. As a result, there are now only three megabanks in 2023<sup>14)</sup>. This shows the strength of the blow that the Japanese economy suffered during the prolonged recession that followed the collapse of the bubble economy more than 20 years ago.

The automobile industry, which had accounted for more than half of global market production, also faced a difficult situation: in 1994, Mazda, Hiroshima-based automaker became an affiliated company under the umbrella of the Ford Motor, and in 1996 it became a Ford-owned company. Nissan, which had maintained the second largest market share in Japan, also fell into financial crisis in 1998 with interest-bearing debt of 2 trillion yen due to sluggish sales in overseas markets, and in 1999 it became an associated company under the effective control of Renault.

Furthermore, the Japanese semiconductor industry, which had supplied more than 50% of the world's markets, was put under extreme pressure by resurgent European and U.S. companies and the newcomer Asian companies from South Korea and Taiwan. Even consumer electronics which had previously been a solid plank in the Japanese economy, gradually lost its market.

One of the major factors that led to the collapse of the bubble economy and the decline of many Japanese companies was their failure to develop their businesses ahead of their competitors in the rapidly evolving markets, technologies and globalization of competition. In this period, it was necessary to go beyond the concept of "internationalization" in order to become a global company and to think "globally" by building competitive advantage on a global scale (i.e., developing overseas business centered on the home country). Strategic actions to build competitive advantage through business development on a global scale from a global perspective were being demanded without being restricted by national borders or nationalities. The decline of many Japanese companies can be attributed to their inability to respond to such dramatic changes.

In the last decade of the 20th century, the final decade of the Globalization 2.0 era, many Japanese companies, exhausted by the never-ending battle against the prolonged recession that followed the collapse of the bubble economy, could not

afford to stop expanding their overseas operations in order to overcome the situation and to restore their former strength. However, they could not proceed in the same manner as in the past, and even if they did, it would only hasten their decline and death. Then, in January 1995, the Great Hanshin-Awaji Earthquake hit the Kansai region<sup>15</sup>). This catastrophe, which killed more than 7,000 people, effectively cut the whole transportation network in the Kansai region. With the future uncertain in the immediate aftermath of the collapse of the bubble economy, economic activity throughout Japan suffered an even greater shock. Furthermore, in March of the same year, the Sarin gas attack on the subway was triggered by the cult Aum Shinrikyo<sup>16</sup>). The entire Japanese society, which had begun to feel the implications of the collapse of the bubble economy, lost its brightness in one fell swoop, which caused great anxiety.

#### **4. The Global Company**

As we have seen, in the last decade of the 20th century, the era of Globalization 3.0 was just around the corner, and many global companies, as well as Japanese companies, were searching for new directions. Many of the 10 factors of global flattening discussed in the previous chapter can trace their origins back to this time. Perhaps the most significant event was the birth of a new economic order and the start of the Internet society coinciding with the end of the Cold War.

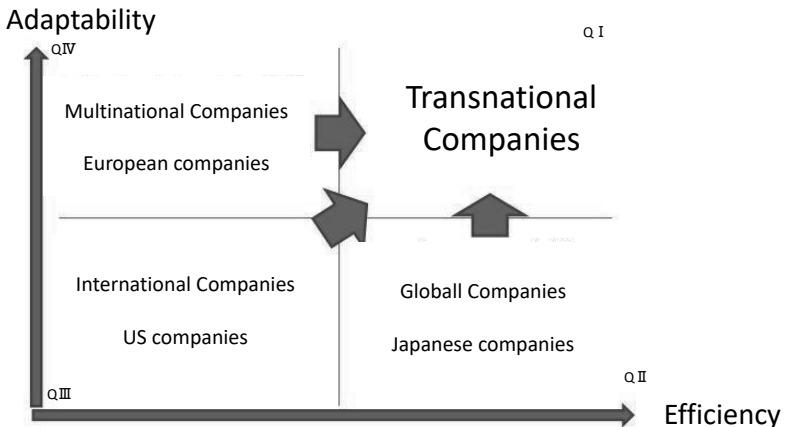
At that time, Christopher A. Bartlett and Sumantra Ghoshal proposed the concept of the “transnational corporation,” a strategic perspective on the corporate behavior of global companies. This corporate concept is a strategic management theory derived from the analysis of international corporate behavior of advanced countries; Japan, the U.S., and Europe in the 1980s. Let us now examine this concept.

(1) Transnational company concept

The concept of the “transnational corporation” is one of the strategic behaviors of global companies, classified based on a close examination of their business development, organizational management systems, and environmental changes in the 1980s. Bartlett and Ghoshal described it with two axes, that of adaptability v efficiency, which led to the development of four corporate models: “Multinational,” “Global,” “International” and “Transnational” model<sup>17)</sup>.

A multinational company, positioned in QIV in Figure-6, is a highly adaptive organization that can respond sensitively to different environments, in different countries and regions. It is a corporate model in which subsidiaries in different countries around the world are given the ability to make strategic decisions based on their organizational capabilities, and the headquarters combines them loosely as a single group. In this corporate model, information and organizational power are dispersed, and the entities in each country have independent management systems, making it a very flexible type of company that can respond swiftly to local

Figure-6 Transition to a transnational corporate model



Source: Bartlett, C. A. and Ghoshal, S., “Managing Across Borders: The Transnational Solution” (1989)

markets<sup>18)</sup>. This corporate model can be evidenced in Europe with such companies as Philips from Netherlands and Unilever from France.

In contrast to multinational firms, firms that seek global efficiency and centralize strategic and management decision-making authority, treating the entire world market as an integrated market, with cost advantage built through centralized mass production as a competitive advantage, are the “global firms” of QII. The organization of the “global firm” model is a centralized organization that pursues efficiency of scale, and Japanese firms are classified as this type<sup>19)</sup>.

The model depicted in QIII is the “International Company.” It is characterized by a “coordinated federation” that transfers and adapts the knowledge and expertise of the parent company for overseas markets. In this corporate model, the subsidiaries in each country do not have much independence or autonomy, and the emphasis is on the ability to rely on and use the knowledge and information provided by the headquarters and the transfer of knowledge to the subsidiaries<sup>20)</sup>. This corporate model is often seen in U.S. companies’ examples being GE and P&G.

Each of these three types of firms had built specific competitive advantages by leveraging their characteristics through the 1980s. In the 1990s, however, it became increasingly difficult to secure a competitive advantage simply by meeting the requirements of “efficiency,” “local adaptability” and “knowledge learning capability” individually. In other words, as globalization progressed, it became necessary to resolve issues such as achieving efficiency on a global scale, overcoming regional and cultural differences, and creating innovation without contradictions. The corporate model presented is the “transnational company” model positioned in QI<sup>21)</sup>. The transnational corporate model, which successfully achieves global business development by resolving the contradiction between “adaptability” and “efficiency” in an eloquent manner, has come to be accepted. It

was indeed a timely corporate concept in the transitional period between the Globalization 2.0 and 3.0 eras.

While the international community was advancing toward the era of Globalization 3.0, and the trend toward homogenization was increasing, markets were becoming more diverse and sophisticated. In order to develop business in response to this trend, it was necessary to achieve “adaptation (diversification)” in accordance with the diversity of markets, while at the same time achieving efficiency in terms of economies of scale. Companies that develop business globally are required to overcome the contradiction between “adaptation and integration” created by global business development, and to establish a system that will enable them to demonstrate their superiority in competition with their international competitors.

In the midst of these changes, we will now consider how Japanese companies that have opted for a transnational corporate model have developed their globalization.

## (2) Emerging transnational companies

Many Japanese companies categorized under the “global company” model, which have developed their businesses under a centralized management system emphasizing efficiency, exporting their whole production systems initially established in Japan to other countries to secure a competitive advantage of high quality and low prices, even as they have developed many overseas bases. In other words, each business is headed by a general manager, who is responsible for products on a global scale, from R&D to production and sales, and the system was an extension of the optimal division of production, while coordinating the plans of group companies. Nevertheless, globalization became inevitable, and there were many attempts to introduce matrix organizations and regional headquarters

systems in order to cope with the diverse and rapidly changing international business environment. Such attempts might be considered the precursors of transnational corporations or their pseudo-organizational forms.

A matrix organization with dual equal authority between regional and product-specific management divisions supports regional business units, and in order to unify and streamline the common functions of multiple local offices, regional headquarters have been established at overseas sites to take charge of some of the headquarters' functions. In reality, however, not many companies have successfully managed to do this. This is because the overlapping scope of responsibilities and dual communication channels make mutual coordination among departments difficult, which tends to cause confusion and amplify uncertainty. In this context, IBM and Canon in the 1990s can be said to be one of the few successful examples of such organizations in operation.

Big Blue (IBM), the world's largest computer manufacturer at the time, was supported by a common organizational culture worldwide, with management principles and goals fostered through years of global operations and shared across national borders. Canon, which had accumulated relatively more experience in global management due to its large proportion of overseas business prior to the 1990s, is also an exceptional case of success in adopting a matrix organization. In order to achieve globalization in this new phase of internationalization, it was necessary to take on the challenge of building an organizational management system with a logic different from that of the past.

On the other hand, an organizational management system introduced in the early 1990s was the "regional headquarters system". Originally, the regional headquarters system was intended to transfer some of the functions of the head office and to organize mutual cooperation among production and sales bases in the region. This ensures speedy decision-making and efficient business activities of

the local bases and allows them to develop as local companies that are integrated into the local community. The horizontal division of labor and complementary systems were then coordinated and maintained on a global scale. The organization of the regional headquarters was initially small in scale and had only partial integration in some functional areas. In addition, decision-making was strongly influenced by the business units of the headquarters. In many cases, there was a reversal of power between the subsidiaries in each country and the regional headquarters, and it can be said that they did not fulfill their functions. Later, global companies, such as Honda, Sony, Panasonic (then Matsushita Electric Industrial Co., Ltd.), and Seiko Epson, shifted to a “world headquarters system” in which regional headquarters became more autonomous and the general headquarters played the role of providing basic principles and coordination from a global perspective.

Furthermore, the world headquarters system not only serves as a cost containment measure by concentrating staff functions, but also allows direct access to markets in each country to strengthen market adaptability and is oriented toward organizational integration at the global level through control by the regional headquarters. Moreover, if the control by the headquarters is loose, a network effect may be fostered in the loose coordination among the regional headquarters, and efficient global logistics may be established. Under such a system, the combination of “market-adaptive” R&D and “technology-oriented” R&D would be promoted, and the creation of more advanced knowledge and the more efficient utilization of the accumulated knowledge on a global scale would be anticipated.

### (3) The initial scene of Globalization 3.0

As previously mentioned, Friedman states that the era of Globalization 3.0



started around the turn of the 21st century. Clearly, Friedman was unable to take into account events that have occurred since its publication, such as the pandemic caused by Covid-19 in 2020 and the Russian invasion of Ukraine in 2022, as well as the global financial crisis, the Lehman Shock in 2008, geopolitical changes between the US and China, the expansion of free trade areas, the energy revolution, nuclear power plant issues, and global environmental issues, global environmental issues, and the evolution of ICT technologies, such as innovative advances in AI, have not been taken accounted of. Let us now re-examine the world of Globalization 3.0 to clarify the extent to which it is developing.

In the early days of the Globalization 3.0 era, a new leading role has emerged and begun to exert great power in a world that had been flattening out. This was led by China, with its population of 1.3 billion, India with over 1.2 billion, Brazil with 200 million, and Russia with 150 million, the BRICS nations, blessed with huge home markets and abundant natural resources, began to emerge on the stage of global economies.

Since the late 1990s, China has been described as the “factory of the world” and has continued to achieve rapid economic growth of more than 10% per year. Even after the Olympic Games (2008) and the World Exposition (2010) that were regarded as the gateway to becoming a developed country, economic growth had not stopped, and the economic foundation has remained solid.

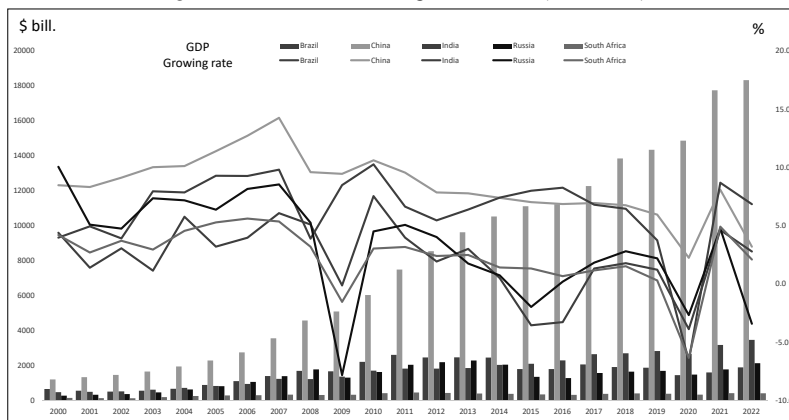
Even after the collapse of Lehman Brothers in the fall of 2008, China quickly regained its vitality and became the world’s second largest economy, maintaining an economic growth rate of over 10% for more than 20 years until the pandemic in 2020. Although in recent years, rising wages have made China less attractive as a production base, it’s huge market is still attractive, and many global companies have developed and continue to develop strategies that focus on the Chinese market. However, there are concerns that under President Xi Jinping, who

succeeded Hu Jintao in 2012, China is becoming more clearly Communist Party-led and is demonstrating a military hegemony that directly challenges that of the United States and NATO.

India, which took steady steps toward becoming an IT superpower in the wake of the Y2K fiasco, has also grown to become the world’s fifth largest economy in terms of gross domestic product (GDP). Compared to developed countries and China, India has a high percentage of young population and is expected to continue to grow further<sup>22)</sup>. In addition to strong consumer demand and expanding trade, it is a country with high growth expectations with potential due to opportunities for direct investment.

On the other hand, ASEAN, which is in the midst of a rapid population expansion, was also experiencing a period of prosperity, a “renaissance” with stable economic growth of around 6%<sup>23)</sup>. Within the region, the elimination of tariffs and non-tariff measures have further facilitated trade and investment, and trade and economic cooperation agreements with neighboring countries are

Figure-7 BRICS economic growth trends (2000-2022)



Source: IMF - World Economic Outlook Databases October 2022

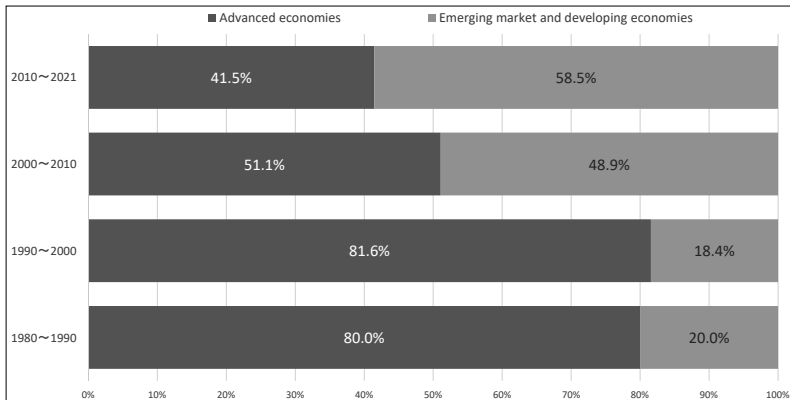
progressing and continuously strengthening economic power. Across the ASEAN region, wages are comparatively low and the region’s advantage as a production location is relatively high, with wage costs already rising significantly. Many

Figure-8 Comparison of the economic situation of the 10 ASEAN countries with the rest of the world

	GDP per capita (\$)		nominal GDP (\$ bill.)		Populations (10 thousand)	
	2006	2020	2006	2020	2006	2020
<b>Syngapore</b>	33,768	60,728	1,486	3,453	440	569
<b>Brunei</b>	34,869	26,468	127	120	37	45
<b>Malaysia</b>	6,355	10,361	1,705	3,376	2,683	3,258
<b>Thailand</b>	3,367	7,160	2,216	4,998	6,581	6,980
<b>Indonesia</b>	1,765	3,931	3,963	10,622	22,456	27,020
<b>Philippine</b>	1,471	3,326	1,277	3,616	8,679	10,877
<b>Vietnam</b>	996	3,514	843	3,429	8,462	9,758
<b>Laos</b>	673	2,546	39	185	584	728
<b>Cambodia</b>	536	1,607	73	252	1,356	1,568
<b>Myanmar</b>	284	1,527	136	813	4,789	5,320
<b>Japan</b>		39,981		50,316		12,585
<b>China</b>		10,525		148,626		141,212
<b>India</b>		1,933		26,677		138,000
<b>USA</b>		63,078		208,938		33,123

Source: IMF - World Economic Outlook Databases October 2022

Figure-9 Change in contribution of emerging and developing countries to world economic growth



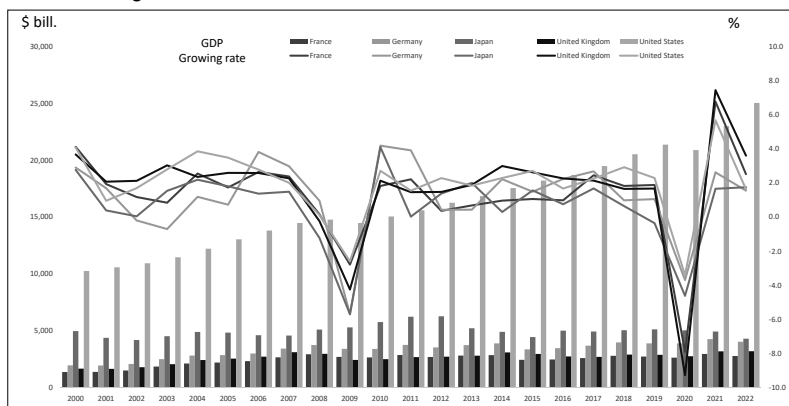
Source: IMF - World Economic Outlook Databases October 2022

companies are relocating production out of China. Besides, there is a strong possibility of a consumption boom as national incomes rise.

According to IMF forecasts, the contribution of developed countries to global economic growth, which had accounted for 80% until 2000, has dropped significantly to 40%, and 60% is now accounted for by developing countries, which in recent years have referred to as the “Global South”<sup>24)</sup>. Developing countries now account for 60%<sup>25)</sup>. Thus, while the countries of the Global South, which were previously considered lesser developed countries or developing countries, have achieved substantial economic growth, the power of advanced countries such as Japan, the U.S. and Europe, which until the end of the 20th century boasted of their economic and political strength, is waning considerably.

In particular, the Lehman Shock and the subsequent worldwide financial crisis caused a long economic recession, especially in developed countries. While the wounds were still healing, the Great East Japan Earthquake and the ensuing nuclear power plant crisis occurred in Japan. In the fall of the same year, a debt crisis began in Europe. These developments made the outlook for advanced

Figure-10 Economic Growth of Advanced Countries 2005-2013



Source: IMF - World Economic Outlook Databases October 2022

economies even more uncertain. The international economic balance can therefore be seen to be changing.

It is uncertain whether this trend is universal. However, it is undeniable that in just over a decade of the new millennium, the power of advanced Western nations that had driven the world economy has diminished, and the global south has made significant economic progress and correspondingly increased its voice. International conferences are being held more frequently, and ASEAN countries, Middle Eastern countries, and countries in the global south such as Chile, Brazil, and South Africa are also beginning to play important roles. With borderless and globalization as keywords, the balance of power in the world has undergone a major transformation.

The evolution toward the era of Globalization 3.0 with the emergence of new leading players is also a shift towards “multi-centered globalization,” in which not only developed countries, but also various countries and regions can become the center of the world. A flattened world is also an “era of multi-centers,” in which many places on the globe will become hubs. In this sense, “Globalization 3.0” is moving to a newer stage, more so than before in the 21st century<sup>26)</sup>.

## **5. Japanese Companies and Globalization 3.0**

In the decade from the late 1990s to the collapse of Lehman Brothers, Japanese companies have taken a variety of measures under the banner of “global standardization of management” in order to respond to the progress of globalization. For example, they have been responding to International Financial Accounting Standards (IFAS) and mark-to-market accounting and strengthening corporate governance with an emphasis on shareholder returns and corporate value. In addition, ISO (International Standardization Organization) has promoted global standards for production, logistics and environmental protection.

Furthermore, as supply chains have become more sophisticated with the advancement of ICT, closed trade practices have been reviewed, and rigid and inefficient distribution mechanisms have been replaced by flexible and speedy international logistics networks.

However, this may not have had a positive impact on our economy. Japan, which was once the second richest country in the world, in terms of GDP and the third richest in terms of GDP per capita, was overtaken by China in 2010 as the third largest economy in the world, and will be overtaken by India in the near future. In terms of average annual income, it was overtaken by Singapore in 2007 and by South Korea in 2015 and is now lower than the OECD average<sup>27)</sup>. In particular, the decline of the Japanese economy after the 2008 financial crisis was still being digested in Japan and beyond.

Faced with this situation, how is Japan trying to survive in the era of Globalization 3.0? In this section, we will examine the state of Japan's economy and society in the early stages of the Globalization 3.0 era and consider the corporate behavior of global companies attempting to overcome difficulties in this era.

### (1) Japanese companies on the eve of the Lehman Shock

More than five years after the turn of the new century, the Japanese economy had begun to recover slightly from the damage sustained since the bursting of the bubble economy, with the disposal of bad debts having been completed. Although the growth rate was remarkably low, without any of the flamboyance of the high economic growth period or the bubble economy, the economy enjoyed a period of moderate expansion for 73 months leading up to the fall of 2008<sup>28)</sup>. However, the storm of the global financial crisis and global recession that originated in the U.S., triggered by the bursting of the housing bubble in the second half of 2007,

significantly affected the global economy of the following year. In the U.S., it drove the world's largest automakers, the Big Three of GM and Chrysler and Ford, towards bankruptcy, GM and Chrysler requiring a U.S. government "bail out". The financial crisis caused the value of the dollar to fall sharply, and the U.S. economy, which should have been rock-solid, was severely affected. It did not stop with U.S. companies but had a tremendous impact on the entire international economic community, with the exception of China.

Indeed, most Japanese companies also experienced a rapid deterioration in their business performance. The Nikkei Stock Average fell 42.1% to 7,045 yen (2009). In tandem with this, the exchange rate, which had been hovering around 110 yen to the dollar, suddenly appreciated to nearly 90 yen to the dollar. This was the return of the era of yen volatility. As a result, exports by Japan fell sharply, resulting in negative economic growth for two consecutive years.

The retail distribution industry, which is directly connected to consumers, immediately reacted to this. This accelerated the industry restructuring that had been underway after the prolonged economic stagnation following the bursting of the bubble economy. The 2001 dismantling of the Saison Group, a distribution group that had dominated the industry with its innovative management and brand power in Japan, marked the beginning of the restructuring of the distribution industry. The Saison Group<sup>29)</sup>, which had Seibu Department Stores and Parco under its umbrella, supermarket Seiyu, convenience store Family Mart, and stationery specialty store Loft, was once again reorganized, and the Saison Group was dismantled. Similarly, the Daiei Group, the oldest supermarket and the largest chain in Japan in the 1980s, disappeared completely when it was absorbed by the Aeon Group in 2015 as a result of repeated restructuring. Furthermore, in 2010, Mitsukoshi, a long-established department store that has been around since the Edo period, was forced to merge with Isetan, a long-lived department store, as it

became too difficult to continue business alone<sup>30)</sup>. Such a breakaway set of distribution companies was not limited to the Tokyo area, but was replicated all over Japan.

On the other hand, manufacturers that had been supplying the global market with low-priced and high-quality products also faced a more difficult situation around the time of the Lehman Brothers collapse: the major Japanese manufacturers that had been the top runners in the global electronics market in the 1980s faced a significant downturn in their business performance as a result of the rise of Korean and Taiwanese electronics manufacturers and EMS (Electronics Manufacturing Service) in the 21st century<sup>31)</sup>. After the burst of the IT bubble, they faced a further deterioration in their business performance. A joint venture Elpida co. ltd., established by the DRAM divisions of NEC and Hitachi in 1999, went bankrupt in 2012. Since then, several Japanese manufacturers have disappeared from the forefront of the industry for the next 10 years until the launch of Rapidus co. ltd<sup>32)</sup> in 2022. Sony, which had led the industry with brands such as Walkman, Trinitron as TVs, Prestige video games and PCs as VAIO, and Panasonic which had a similarly broad product lineup and changed its name from Matsushita Electric Industrial Company to become a global brand, also suffered a downturn in performance. 2011. In 2016, Sharp, a top runner in LCD devices with the catchphrase “eye-catching,” fell into insolvency and became a subsidiary of Taiwanese EMS company Hon Hai (Foxconn), a Taiwanese EMS company.

Turning to the automobile industry, while not as disastrous as the electronics industry, it has suffered no small amount of hardship related to the shrinking domestic market and the impact of globalization. As mentioned above, Nissan, which had long maintained Japan’s second largest market share under the slogan “Nissan of Technology,” became a subsidiary of Renault in 1999 as a result of its overseas sales strategy that resulted in massive interest-bearing debt. Although

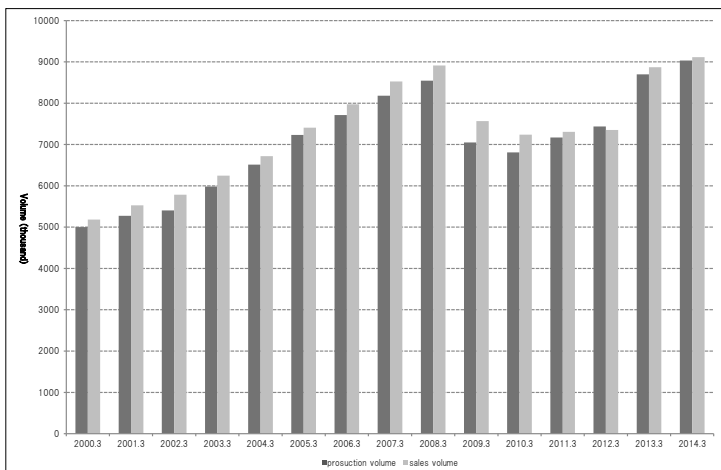


## From Local To Global

Nissan later survived the Lehman Shock under President Carlos Ghosn, who was nicknamed “Cost Cutter,” the relationship was not equal, and the company was still an affiliate of the Renault Group<sup>33</sup>). Mazda, which was under the Ford umbrella, withdrew from Ford’s support after the Lehman Shock, but it is not in a position to be considered very independent.

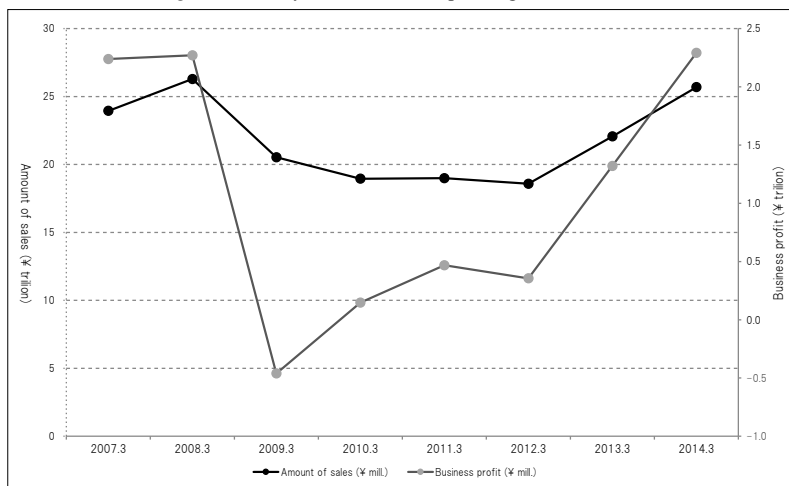
Only Toyota, even after the bursting of the bubble economy, has not significantly deteriorated its business performance, and has steadily consolidated its position as a global company in the early 21st century. In 2008, Toyota overtook GM, the largest of the Big Three automakers in terms of new car sales, to become the world’s top automaker. However, in addition to its poor performance due to the Lehman Shock, the company was embroiled in a recall issue stemming from an abnormal acceleration problem in the U.S. market. On top of that, the company suffered unprecedented operating losses in the face of the natural disasters of the Great East Japan Earthquake in 11th March in 2011 and the

Figure-11 Toyota’s production and sales volume trends



Source: Toyota Annual Report 2015

Figure-12 Toyota's sales and operating income trends



Source: Toyota Annual Report 2015

flooding in Bangkok, Thailand in the summer of the same year<sup>34)</sup> and the multiple hardships caused by these disasters, including supply chain disruptions, power shortages, and the rapid appreciation of the yen<sup>35)</sup>.

In addition, Toyota faced a major challenge as a result of a number of “recalls” in 2011 in the U.S., its most profitable market. Moreover, this was just when the U.S. automakers GM and Chrysler, backed by the U.S. government, the European automakers Renault-Nissan, and the low-priced Korean automaker Hyundai were healing from the wounds of the Lehman Shock and trying to expand their market share in the U.S.<sup>36)</sup>. The firestorm that spread not only to the structural defects of the cars, but also to the attitude toward consumers and the corporate structure of the company, pushed Toyota to advance its corporate evolution toward Globalization 3.0 more forcefully than ever before.

## (2) Toyota's challenge

Under these circumstances, Akio Toyoda, Toyota's president, who hails from the founding family of Toyota, has set forth a "global vision" for a new era.

"The vision is about what kind of company we should be and how we can grow sustainably as a good corporate citizen in each region through the formulation of the vision. The major difference from our previous visions is that as a global company, this is a process that we have considered together with our members in each region, using English. Based on a stable management foundation, we want to become a company that can reliably generate profits, pay taxes, and secure employment even if something like the Lehman Shock occurs in a global situation where anything can happen. 15-year sales volume is envisioned at the 9 million-unit sales for Toyota and Lexus."

Under this global vision, Toyota started rebuilding its corporate governance system at first. The number of directors was reduced from 27 to 11, and director-level managers were appointed in six overseas regions to delegate decision-making authority over overseas operations to the local level. At the same time, the Public Relations Department was placed under the direct control of the President, and a system was put in place to ensure the timely dissemination of information both internally and externally.

In 2013 and 2016, the company took a scalpel to its centralized function-based organization and implemented a significant reorganization of its headquarters. The reorganization involved the introduction of a four-business unit system: "Toyota No. 1," which is in charge of developed countries such as North America and Japan; "Toyota No. 2," which focuses on emerging countries; "Unit Center," which handles engines and transmissions; and "Lexus International," which handles Lexus brand luxury vehicles. Lexus International was placed under the direct control of the President, and three vice presidents were responsible for the other

three business units. By consolidating resources that had been divided for the convenience of the supply side on a market axis according to market characteristics and objectives, and by promoting regional decentralization, the company aimed to revitalize the development and production sites that had shown signs of breakdown due to the rapid expansion of production in the past. This was a reform of Toyota’s organizational model, which had produced successful performance in the past, and a challenge to the transnational corporate model.

In 2015, the company also undertook a major restructuring of the group’s parts business. The three businesses of diesel engines, manual transmissions, and brakes were gradually transferred and consolidated in the group’s parts companies<sup>37)</sup>. The purpose of this reorganization was to streamline development personnel in the face of increasingly complex safety and environmental technologies, while Toyota itself worked on advanced technologies to increase its global competitiveness<sup>38)</sup>.

Figure-13 Toyota’s organizational structure (2016)



Source: Green Car Congress 02 March 2016

Toyota also lifted the “freeze on new plant construction” that it had put in place as part of its “departure from a simple expansion path” following the Lehman Brothers collapse, and although the inauguration of President Trump in 2016 forced the company to scale back its original plans, it launched a Mexican plant with an annual production capacity of 100,000 vehicles in 2020. These management reforms by Toyota were one of the choices it made to survive in an evolving global society.

The automotive industry was no exception to the pandemic of 2020. Production was halted in almost all countries, and demand was said to have disappeared to a degree exceeding that of the Lehman Brothers collapse. However, the impact of the pandemic was unexpectedly small, and fortunately, by the fiscal year ending March 2021, demand had returned to pre- pandemic levels. This is because the prolonged suspension of production in many countries reduced inventories in circulation and tightened supply and demand, which, combined with the spread of suburban lifestyles, led to a recovery in demand for automobiles. Against this backdrop, the efforts made after the Lehman Shock were effective. In other words, lowering the break-even point by about 2 million units was beneficial in strengthening competitiveness.

Furthermore, Toyota’s image in the era of Globalization 3.0 was clearly articulated in mid- 2022, when there was a growing awareness that the pandemic was subsiding in many developed countries. While many automakers were leaning toward EVs, Toyota was alone in articulating an all-encompassing powertrain strategy. This is a step forward in the evolution of Toyota into a transnational company that simultaneously achieves “efficiency and adaptability.

## **6. Diversity adaption**

In this paper, we have reviewed the trends in the internationalization and

globalization of corporate behavior with a focus on Japanese companies. In concluding this paper, we would like to consider the current situation and issues facing Japanese companies.

As mentioned at the beginning of this paper, the trend of yen depreciation that began during the pandemic shows no sign of ending. However, based on past experience, we do not believe that the yen will continue to depreciate endlessly. Nevertheless, the ongoing invasion of Ukraine by Putin, the rogue state of Russia, as well as developments in Xi Jinping's China and Kim Jong-un's North Korea and Myanmar's civil war are highly disturbing and economically unsettling for global markets and Asian markets in particular. Combined with the fact that electricity and gas prices are more than 30% higher than before, this has only made life more uncertain, even though fears of the pandemic have diminished. Since the oil crisis in the 1970s, in the authors views there has been no time in recent memory when the simultaneous rise of resource prices and inflation has brought about a positive outcome, for individuals, corporations or nations. Prior to the bubble economy burst, Japan's people and economy were strong. However, faced with the continual assault since the bursting of the bubble economy, increased competition, the emergence of China, an increasingly boisterous and troublesome North Korea, the rise of South Korea as a legitimate competitor in the major markets of cars, heavy engineering and electronic manufacturing, Japan does not have the strength it once had to face further pressure from the impacts of pandemics globalization, innovations and global conflicts. It is difficult to acknowledge that in fact Japan may not have the strength to decide its own destiny in such a "turbulent" river and may have to "go with the flow" of the river of change, whilst learning to see if it can adapt and steer in these new turbulent times.

Examining the evolution process of Japanese companies toward Globalization 3.0, the collapse of the Berlin Wall and the Soviet Union, the end of the Cold War,

the spread of the Internet at the same time and the establishment of the WTO at about the same time, have all contributed to the expansion of free economic exchange around the world. Until the collapse of Lehman Brothers, global society had been making linear progress toward a “flattening world,” or a “polycentric society”. While it is true that there were new issues such as disparities between rich and poor, human rights issues, and global environmental problems, it seemed and was expected that many countries would break away from the BOP (Base of Pyramid) and establish the appearance of a democratic nation for the time being.

Contrary to speculation, however, chaos returned in the late 2010s. The world was once again entering an era of hegemonic confrontation. When the Trump administration came to power in the United States with its “MAGA (Make America Great Again)” policy, it implemented additional tariffs and embargoes against China. In response, China, now an economic superpower, retaliated by enacting export control laws and other measures, which worsened U.S.-China economic relations. This struggle for supremacy has continued under the Biden administration. The conflict did not stop with China and the U.S. but became a reality of “division” involving countries around the world. This was fueled by the COVID-19 pandemic that originated in China. The conflict between the two countries began where the first cases occurred and continued over the effectiveness of the vaccine, lockdown, and other pandemic response measures.

Further distorting the linear evolution of Globalization 3.0 is Russia’s invasion of Ukraine. A strategist noted as following. “The war has not gone away, but it is an asymmetric war between states and terrorist organizations, not a fierce all-out war it is a proxy war. The war which huge armies engage in fierce battles or mobilize the entire population, may well be an event only in history textbooks<sup>39</sup>.” The flattered world has suddenly turned into an illusion. The Globalization 3.0 era, which was on the verge of building a new order as indicated by Friedman, went

through a period of transition, with a change of characters, a twisting of the change trajectory, and a higher rate of change. And it became impossible to imagine predicting what the new world order even will look like.

In the latter half of the Globalization 2.0 period, which lasted nearly 200 years, Japanese companies were able to compete with and sometimes beat global companies because the trends of the times were generally set. The direction of evolution was set because the future was clear, the focus was clear, and selection and concentration were possible.

However, with the bursting of the bubble economy, the direction of evolution became indefinite, and the successful experiences of the past were no longer applicable. Many of the Japanese firms that fell during the same period, were stuck in management systems that were dragged down by the past and adopted limited strategic actions that relied on the limited information and management resources they had acquired up to that point. In short, they were unable to respond to the diversity created by the changing business environment.

Figure-14 Exchange rate trends from 2000 to 2022



Source: Bank of Japan



Many commentators consider that Japan which has struggled since the bursting of the bubble economy is unable to steer its own course and as it does not have natural resources such as raw materials and fuel, furthermore that it must depend on foreign countries for these resources, once the domestic market is saturated, it cannot be expected to expand its size further. The market had been expanding along with population growth, but once the expansion stops, the size of the market itself will become a limiting factor, forcing companies to seek overseas markets. The greatest requirement for corporate behavior under these conditions is the exchange rate, which is difficult to control over the longer term. It is impossible to decide on “selection and concentration” when the market environment is unstable, the technological trajectory is unclear, it is not known with whom and where to fight, and the rules are not set. This is where an all-around strategy capable of adapting to all changes is needed. In the 30 years since the collapse of the bubble economy, the exchange rate of the yen has fluctuated from a high of 70 yen to the dollar to a low of 150 yen to the dollar. It is obvious that the response to this situation cannot be to passively respond with “selection and concentration”.

Paradoxically, the source of the strength of Japanese companies in the past was “selection and concentration”. Even if there were discrepancies in method and direction, the fact that they selected something and concentrated their management resources on it formed a strength in itself. This in turn created efficiency and enabled the creation of demand regardless of whether it was necessary or not. In this sense, the strength of Japanese companies at that time was that they were extremely strategic and pre-deterministic. However, the extreme fluctuations in the exchange rate over the next 30 years did not allow them to be strategic.

It is still unclear what kind of world the Globalization 3.0 era will be, nor how Japan will prosper in this “strange new world”. It is extremely unfavorable for Japanese companies that are oriented toward strategic corporate behavior as their

success depends on them being able to accurately predict what the turbulent waters will be like in the coming decades. Given that Japan Inc, Japanese government and corporations have failed to successfully predict the last few decades since the bursting of the bubble economy. It would be an optimist indeed, who would predict that Japan Inc. will be able to navigate the even more turbulent unknown waters that that of the last few decades. If the past is a predictor of the future, it may well be that Japan Inc. is about to face even more turbulent and uncertain waters that it has hitherto faced since the ending of hostilities in world war 2nd. The question is whether Japan Inc, the people, the corporations, and the government are strong enough and importantly innovative enough resilient enough to succeed the coming flood of change.

On final note, Toyota's decision to launch an all-around powertrain strategy is the result of dismissing its past strategic strengths and may be described as a shift to new strategic corporate behavior of "responding to diversity with diversity". This is the wisdom of living in the age of multi-centers.

---

<Notes>

- 1) Nihon Keizai Shimbun, October 21, 2022, p. 1
- 2) Nihon Keizai Shimbun, March 9, 2023, p. 3, The yen was at the high \137 per dollar level in the foreign exchange market on March 8.
- 3) Friedman T. L, (2005), "The World Is Flat: A Brief History of the Twenty-first Century" Farrar Straus & Giroux, (translated by Fushimi, Takeba 2006)
- 4) *ibid.* p. 21
- 5) Smith Adam, (1776), "An Inquiry into the Nature and Causes of the Wealth of Nations" W. Strahan & T. Cadell, (translated by Yoichi Yamaoka, Wealth of Nations: A Study of the Nature and Causes of the Wealth of Nations, Nihon Keizai Shimbun Shuppansha, March 2007). According to Smith, international trade is further promoted when Country A can produce Good X more cheaply than Country B, and when Country B can produce Good Y more cheaply than Country A. In other words, it is beneficial for both countries to specialize in trade in goods that can be produced most efficiently in each country, increasing the economic welfare of both countries.
- 6) Ricardo David, (1817), "On the Principles of Political Economy, and Taxation," John Murray (translated by Takuya Hatori and Yoshiki Yoshizawa, Principles of

## From Local To Global

- Economics and Taxation, Iwanami Shoten, May 1987). Ricard posits the “comparative cost of production theory” that “cheap grain and cheap manufactured goods make wages, the price of labor, cheaper and increase the rate of profit, the driving force of economic development,” and points out that “it would be mutually beneficial if each country concentrated on producing goods in which it excels and, in exchange, imported goods in which it does not excel so well. In addition, he points out that “it is mutually beneficial if each country concentrates on the production of goods in which it excels and imports goods in which it does not excel in exchange.
- 7) The United Nations, Statistical Yearbook, 1953 40
  - 8) Iwasaki N., “Japanese Companies in the Global Era,” Contemporary Management, 1992, pp. 15-33
  - 9) Iwasaki N., “Internationalization of Business Organization,” Contemporary Management, 1992, pp. 87-103
  - 10) When a company faced with a recession rebuilds its management by reducing internal slack resources.
  - 11) Iwasaki N., and Hosono H., “Global Strategy in the Era of Mega-Competition,” Seijo Economic Research No. 142, 1998, p. 11
  - 12) *ibid* p. 13
  - 13) *ibid* p. 8
  - 14) There are 3 Mega banks in Japan, they are Mitsubishi UFJ Bank, Mitsui-Sumitomo Bank and Mizuho Bank.
  - 15) The Great Hanshin-Awaji Earthquake was a magnitude 7.3 disaster January 17, 1995, with its epicenter in the Akashi Strait in Awaji Hyogo prefecture.
  - 16) Aum Shinrikyo is a cult group organized with Shoko Asahara (real name Chizuo Matsumoto), who was executed in 2018, as its founder. The group has even gone so far as to carry out plans to overthrow the state. The Sarin gas attack on the subway on March 20, 1995 was an unprecedented incident in which a religious group targeted a large city in peacetime and simultaneously attacked multiple locations with a powerful chemical weapon. It had a huge impact on the world, including the fact that it occurred in postwar Japan, a country with a high level of security.
  - 17) Bartlett, C. A. and Ghoshal, S. (1989), “Managing Across Borders: The Transnational Solution”, Harvard Business School Press, Nihon Keizai Shimbun, 1990)
  - 18) *ibid*. p. 68
  - 19) *ibid*. p. 71
  - 20) *ibid*. p. 70
  - 21) *ibid*. p. 77
  - 22) October 2022 Data based on SNS (Manual of National Accounts)
  - 23) ASEAN Renaissance (1) “Japan’s ‘One-Shot Victory’ Now Long Ago: Major Competition in a Market of 600 million People,” Nikkei, July 2, 2013, p. 1
  - 24) The term “high south, low north” was coined to indicate that economic growth is high in developing countries (south) and low in developed countries (north). However, the situation is not universal, as already noted. For example, the effects of monetary easing measures by the U.S. Fed since the Lehman shock in 2014 have resulted in rapid dollar appreciation, which has caused dollars that had been flowing into

- emerging economies to flow back into the U.S., resulting in nearly 10% inflation in emerging economies and a fading of economic growth. This trend was particularly strong in the “Fragile 5” currencies (referring to the Brazilian real, Indian rupee, Indonesian rupiah, Turkish lira, and South African rand
- 25) Japan External Trade Organization (Jetro), “World Economy, Trade and Direct Investment,” January 2013, Source: IMF Statistics
  - 26) In my book, I once wrote that the era of Globalization 3.0 was already at its end and that an era beyond it was advancing. Here, I would like to revise that statement. This is because that occurred at the number of players has greatly increased with the entry of many developing countries at the time, and the result has been an overemphasis on the influence they exert. I would like to revise my previous comment, as I do not see any fundamental change in technology in 2023, which I believe is still at the threshold of the “Era of Globalization 3.0.
  - 27) GDP per capita, Singapore overtakes Japan,” Nihon Keizai Shimbun, July 5, 2008, evening edition, p. 1
  - 28) The 73-month period of economic expansion surpassed that of the “Izanagi Boom” of 1965-1970 (57 months), which had been the longest postwar period. However, because of the low growth rate, it was called “an expansionary phase without any sense of reality.
  - 29) The core group consists of four core groups: Seibu Department Stores, Seiyu, Asahi Industries (Seibu Chemical Industry), and Seibu Environmental Development (Seibu Urban Development), and through the “Integrated Living Industry” declaration, Credit Saison (Seibu Credit), Western Food Systems (Restaurant Seibu, Yoshinoya D&C, Dunkin Donuts, etc.) Asahi Koyo, and Saison Life Insurance (Seibu Allstate Life Insurance) were selected as new core companies. As the bubble era came to a close, Intercontinental Hotel, Osawa Shokai, Parco, and FamilyMart were added to the list. At its peak, the company had 13 groups; it fell into a business crisis after the bursting of the bubble economy in the 1990s and collapsed in 2001.
  - 30) Isetan Mitsukoshi Ltd. was born in 2011 through the merger of Mitsukoshi Ltd. and Isetan ltd.. Both department stores are long-established businesses with their origins in kimono stores of the Edo period.
  - 31) EMS stands for “Electronics Manufacturing Service,” and refers to the contract manufacturing of electronic equipment, or the manufacturer that undertakes this service.
  - 32) Rapidus Corporation is a state-of-the-art semiconductor mass production company
  - 33) The two parties have agreed to negotiate a reduction in the unbalanced equity stake in Renault and Nissan, marking a turning point in the capital relationship between the two that began in 1999 and will become equal after 20 years. Nikkei Shimbun, January 31, 2023 morning edition, p. 1
  - 34) This is a large-scale recall problem triggered by the fatal Lexus ES350 accident that occurred in California in August 2009. The recalls involved 3.8 million vehicles due to defective floor mats, 2.3 million vehicles due to defective gas pedal pedals, and approximately 8 million vehicles in the U.S., including those related to the Prius. The pedal and floor mat defects were confirmed and appropriate action was required, but the fatal accident was put to rest in 2011 when the U.S. Department of Transportation

- announced.
- 35) The Lehman Shock, a financial crisis triggered by the subprime loan problem that began in the fall of 2008, drove the world's automakers into the abyss. Chrysler, which had terminated its partnerships with GM and Mercedes-Benz, went bankrupt. In Europe, Porsche Motor Corp. fell into financial crisis, and Swedish automaker Saab, which had been under the umbrella of GM, also went bankrupt.
  - 36) Funding and restructuring through President Obama's auto policy helped the U.S. auto market recover more quickly than expected. In addition, European manufacturers, led by VW and including the Renault-Nissan Group, also recovered their performance, driven by the growth of the Chinese economy, which has a large market share, and the depreciation of their own currencies. The recovery of European manufacturers was remarkable, with VW's global sales volume increasing 45% in 2012 compared to 2007, and the Renault-Nissan Group achieving a 20% increase.
  - 37) Nikkei Newspaper, November 29, 2014
  - 38) Weekly Toyo Keizai, 2014.12.13, p. 206
  - 39) Yu Koizumi, "The Ukrainian War", 2022, p. 15,

<References>

- Bartlett, C. A. and Ghoshal, S., "Managing Across Borders: The Transnational Solution", Harvard Business School Press, 1989, (translated by Hideki Yoshihara, Corporate Strategy in the Age of Global Markets, Japan Keizai Shimbun, 1990)
- Friedman T. L., "The World Is Flat: A Brief History of the Twenty-first Century", Farrar Straus & Giroux, 2005, (translated by Takeshi Fushimi, Flattening World, Japan Keizai Shimbun Publishing, 2006)
- Iwasaki Naoto, "In Search of a New Paradigm of Global Strategy: Learning from the Strategic Behavior of Asian Firms", Proceedings of the 3rd National Conference of the Japan Association for International Business Studies, 1996
- Iwasaki Naoto, "Japan Companies in the Age of Global", Oberlin Economics No. 28, Oberlin University, 1992 (in Japanese)
- Iwasaki Naoto, Global Strategies of Japanese Middle-Sized Companies, Annual Report of the Institute of Industrial Research, Oberlin University, No. 9, Oberlin University, 1991 (in Japanese)
- Iwasaki Naoto, "Deregulation of the Semiconductor Industry and the Strategy of Semiconductor Manufacturers", "Modern Deregulation and Management Strategy", Chuokeizaisha, 1994 (in Japanese)
- Iwasaki Naoto "Japan Companies in the Age of Globalization, Modern Management, Hakuto Shobo", 1992 (in Japanese)
- Iwasaki Naoto, "Corporate Organization of Internationalization", "Business

- Administration of Internationalized Society”, Yachiyo Publishing, 1990 (in Japanese)
- Iwasaki Naoto, “Honda’s Global Strategy”, Business Administration of an Internationalized Society, Yachiyo Publishing, 1990 Naoto Iwasaki, “Internationalization and Informatization”, Office Automation Vol. 17 No. 4-1, 1997 (in Japanese)
- Iwasaki Naoto, “An Exploratory Study on Global Strategic Behavior of Japan Firms”, Office Automation Vol. 18, No. 5 (No. 83), The Japan Society of Office Automation, 1998 (in Japanese)
- Iwasaki Naoto and Kanda Makoto, “Realization of Strategic Innovation through Enterprise-to-Business Network Construction”, Bulletin of the Institute of Economic Research, Seijo University, No. 19, 1998 (in Japanese)
- Iwasaki Naoto, “Organizational Strategy for Promoting Global Learning”, Proceedings of Office Automation May1998 (in Japanese)
- Iwasaki Naoto, Gerry J. Gannon, ‘How Can Japanese Companies Realize New Global Strategies’, Seijo University Economic Review No. 141, 1998 (in Japanese)
- Iwasaki Naoto, “Learning from Japanese Manufacturers in the European Market: Issues of Globalization of Japan Companies”, JMA Journal Vol. 4 No. 8, JMA, 1998 (in Japanese)
- Iwasaki Naoto and Hiroo Hosono, “Global Strategy in the Age of Mega Competition: European Strategies of Japan Automakers”, Seijo University Economic Review No. 142, 1998 (in Japanese)
- Iwasaki Naoto, “Reproduction of Organizational Inertial Force in Multinational Corporations”, Organizational Theory and Multinational Corporations, Bunshindo, 1998 (in Japanese)
- Iwasaki Naoto and Kaiho Hidetaka, “Building Relationship Management from a Global Perspective”, JMA Management Journal August Vol. 5 No. 8, Japan Management Association, 1999 (in Japanese)
- Iwasaki Naoto “Is it possible to achieve both globalization and localization?”, Management Issues, Productivity Publishing, 2000 (in Japanese)
- Iwasaki Naoto, “Business Model for Core Business Innovation by IT”, Lecture on Modern Business Administration 4 “Companies and Informatization”, Yachiyo Publishing, 2003 (in Japanese)
- Iwasaki Naoto, “Case Study Toyota Motor Corporation”, Seijo University Economic Review No. 171, Seijo University, 2005 Naoto Iwasaki, Redesign of Corporate Design, Hakuto Shobo, 2012 (in Japanese)

## From Local To Global

- Iwasaki Naoto, Hong Hu, “New Trends in Globalization: Transformation of Global Society and Corporate Behavior”, Seijo University Economic Review No. 206, Seijo University, 2014 (in Japanese)
- Iwasaki Naoto, “Glocal Studies on Economic and Social Dynamics”, “Glocal Studies on Economic and Social Dynamics”, Seijo University Glocal Research Center, 2016 (in Japanese)
- Iwasaki Naoto “Business Model as a Strategic Whole”, “Management Strategy Theory”, Gakubun-sha, 2006 (in Japanese)
- Iwasaki Naoto, “Scenes on the Eve of the New Normal”, Seijo University Economic Review No. 231, Seijo University, 2021 (in Japanese)
- Iwasaki Naoto, “The Essence of Corporate Design Redesign”, Seijo University Economic Review No. 232, Seijo University, 2021 (in Japanese)
- Kaiho Hidetaka, Naoto Iwasaki, ‘Changing Global Strategies through Business Development of Electronic Component Companies into Asia’, Seijo University Economic Review, No. 136, Seijo University, 1997(in Japanese)
- Kaiho H. and Iwasaki N., “For Japan Companies to Be Admired Globally”, JMA Management Journal August Vol. 5 No. 8, Japan Management Association, 1999 (in Japanese)
- Ricardo David, “On the Principles of Political Economy, and Taxation”, John Muray, 1817, (Takuya Hatori, translated by Yoshiki Yoshizawa, Principles of Economics and Taxation, Iwanami Shoten, May 1987)
- Smith Adam, “An Inquiry into the Nature and Causes of the Wealth of Nations”, W. Strahan & T. Cadell, 1776, (translated by Yoichi Yamaoka, The Wealth of Nations: A Study of the Nature and Causes of National Affluence, Japan Keizai Shimbun Publishing, March 2007)
- Takai T., Iwasaki N., Kanda M., “In Search of a New Paradigm of Global Strategy: Learning from Asian Companies”, Annals of the Japan Association for International Business Studies 1997, 1997
- Teramoto Y., Kanda M., Miyashita K, Iwasaki Naoto, “Global Network Strategy of Japan Companies”, Toyo Keizai Inc., 1990 (in Japanese)
- Teramoto Y., Iwasaki. N, Richter. F, Takai.T, Wakuta.Y, ‘Global Strategy in the Japanese Semiconductor Industry’, Japanese Multinationals”, Routledge, 1994
- Teramoto Y., Iwasaki. N., Takai T., ‘How Strategic Alliances Change: The Case Study of the Japanese Semiconductor Business’, Malaysian Management Journal, Voi.2, No. 2, 1997 (in Japanese)

Yamakawa Hiroyasu, “Global Strategy for an Advanced Information Society”, Modern Management, Hakuto Shobo, 1992 (in Japanese)

Yu Koizumi, “The Ukrainian War”, Chikuma Shobo, 2022 (in Japanese)

This article is the fifth of six articles by Dr Gannon and Professor Iwasaki and builds on the original ideas by Professor Iwasaki in “Globalization and Japanese companies”, in Seijo Economics No. 240, March, 2023.