

# Chapter 5

## Market Barriers, Global and Regional Integration

International activities of companies are closely related to trade liberalisation on a global level. The most important institution concerned with the rules of trade liberalisation has been GATT, substituted by WTO. The remarkable level of world trade today has another driving force: regional economic cooperation or regional economic integration. The objective of this Chapter is to describe the different types of market barriers and the forms of regional economic cooperation.

### Types of Market Barriers

The major artificial barriers to trade are classified in Figure 5.1 as tariffs and non-tariff barriers.

Categories of Market Barriers

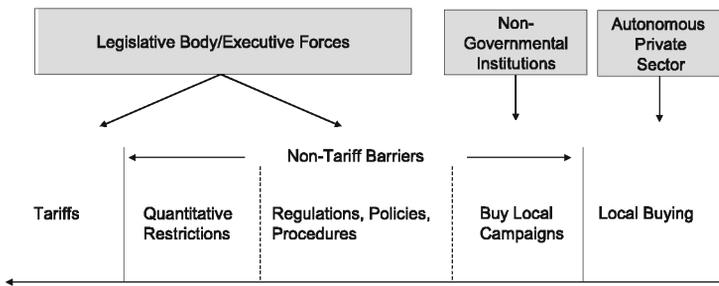


Figure 5.1

*Tariffs*, i.e., taxes placed on goods that are traded internationally, have traditionally been used to protect domestic industries by raising import prices. Because trade liberalisation has progressed, governments are increasingly using *non-tariff barriers* to protect some of their countries' industries: "Governments are very creative when it comes to the invention or virtuous use of non-tariff barriers to protect their countries' industries from international competition" (Mühlbacher/Dahringer/Leihns 2006, p. 147).

### Trade Barriers

Non-tariff barriers can take three basic forms:

- quantitative restrictions, i.e., barriers that impose a limit on the quantity of a good that may be exported or imported
- laws, regulations, policies or procedures that impede international trade
- “buy local” campaigns.

### Quotas and VER

*Quotas* are a very popular example in the first category. These limit the quantity of a good that may be exported or imported during a certain time period, such as a year. Another example of numerical limits is the *voluntary export restraint* (VER), i.e., a promise by a country to limit its exports of a good to another country to a defined amount. This is often announced to avoid import restrictions by the target country.

Selected forms of the second category are (Griffin/Pustay 2010, pp. 279-280):

- public-sector procurement policies
- local-purchase requirements
- product and testing standards.

### Policies, Procedures, Campaigns

*Public-sector procurement policies* prefer domestic firms in purchasing. *Local-purchase requirements* impede foreign firms by requiring domestic firms to purchase goods from local suppliers. *Product and testing standards* of a country have to be met by foreign products before the products can be sold in that country. “*Buy local*” campaigns (e.g. “BuyAmerican”) are sometimes conducted by non-governmental (or even governmental) institutions “to persuade their nationals to buy locally made products and services rather than those of foreign origin” (Bradley 2005, p.130). “*Local buying*” can also be the expression of a specific behaviour of individuals as consumers, seeking to protect domestic producers because of *patriotic* or *chauvinistic* motives.

### Trade Sanctions and Trade Embargos

Besides permanent tariff and non-tariff barriers, international trade is also influenced by temporary barriers which arise because of reactions to specific events in intergovernmental relations: *trade sanctions* and *trade embargos*. A sanction is, generally speaking, the reaction of a state to retaliate against the international-law-violating behaviour of another state. Trade sanctions are also associated with the term *retorsion*. The trade embargo is an example of a trade sanction. A trade embargo implies governmental, sovereign orders to prevent trade with a specific state. Basic variants of the trade embargo are the *export embargo*, *import embargo* and *capital embargo* (e.g. blockage of payments or prohibition of asset transfers) (Altmann 2001, pp. 616-617).

## Restricting Foreign Direct Investment

Besides establishing barriers to trade (export or import), a government can deter foreign investments. FDI occurs when a company invests in a foreign subsidiary or joint venture with a partner firm in a foreign country, takes over a foreign company (acquisition/merger) or has a share in a foreign company. Foreign direct investment entails some degree of control in contrast to “pure” financial investments. Besides *ownership restraints*, e.g. where foreign ownership is restricted to 25 %, *operation requirements* (e.g. local content) are another important instrument which influences foreign direct investment decisions. They are controls over the behaviour of the local subsidiary, such as local participation in top management.

*Government Policy Instruments and FDI*

## Global Integration

### Trade Liberalisation

The most important institution which has opened up new markets in almost all regions of the world has been GATT – the *General Agreement on Tariffs and Trade*. Founded in 1947, its objective was to liberalise international trade by eliminating tariffs, subsidies, import quotas, and the like. According to this multilateral agreement, the international trading system should be (WTO 2007):

*GATT Rules*

- *without discrimination* – a country should not discriminate between its trading partners (giving them equally “most-favoured-nation” or MFN status) and it should not discriminate between its own and foreign products, services or nationals (giving them “national treatment”)
- *freer* – barriers coming down through negotiation
- *predictable* – foreign companies, investors and governments should be confident that trade barriers (including tariffs and non-tariff barriers) should not be raised arbitrarily
- *more competitive* – discouraging “unfair” practices such as export subsidies and dumping products at below cost to gain market share
- *more beneficial for less developed countries* – giving them more time to adjust, greater flexibility, and special privileges.

Eight rounds of trade negotiations have led to significant reductions in tariffs and non-tariff barriers. The eighth round of negotiations, the *Uruguay Round*, created the *World Trade Organization* (WTO), which operates as an umbrella organisation that encompasses the GATT along with new bodies, including one on services and one on intellectual property rights. Since 1 January 1995,

*Uruguay Round*

the WTO has been responsible for monitoring the *trade policies* of member countries and arbitrating *trade disputes* among member countries.

**GATS and TRIPS**

The Uruguay Round also led to liberalisation in trade in services (GATS – *General Agreement on Trade in Services*) as well as agricultural goods, improvement in the protection of intellectual property rights (TRIPS – *Agreement on Trade-Related Aspects of Intellectual Property Rights*) and *anti-dumping rules*, prohibiting sales in foreign countries below cost.

**Doha Development Round**

The latest round, the *Doha Development Round*, which began in 2001, collapsed in July 2008. The Trade Negotiations Committee failed to agree on blueprint agreements in agriculture and industrial products. Eventually, the talks broke down over the *special safeguard mechanism* (SSM). The SSM would allow developing countries to raise tariffs temporarily to deal with import surges and price falls. Most topics on the agenda had seen positions converge, however, and the further progress of the Doha Round has to be awaited. In any case, as a result of the activities of GATT/WTO since 1947, world trade increased from 1,998 billion USD in 1980 to 12,147 billion USD in 2009 (see Table 5.1).

**Table 5.1**

*Increase in World Trade between 1980 and 2009 (in billion USD)*

Year	World	Europe	Asia
1980	1,998	965	504
2009	12,147	4,995	3,566

Source: WTO 2010.

### Investment Liberalisation

**TRIMS**

The liberalisation of trade is accompanied by a policy of the WTO members gradually allowing foreign direct investment, such as the establishment of subsidiaries and joint ventures or the takeover of companies. The TRIMS agreement (*Trade-Related Investment Measures Agreement*) in the Uruguay Round is an important step towards eliminating national regulations on FDI. “To this end, an illustrative list of TRIMs agreed to be inconsistent with these articles is appended to the agreement. The list includes measures which require particular levels of local procurement by an enterprise (local content requirements) or which restrict the volume or value of imports such an enterprise can purchase or use to an amount related to the level of products it exports (trade balancing requirements)” (WTO 2008).

For example, some important steps of the timeline of relations of China and the WTO are illustrated in Table 5.2. China has become one of the most popular destinations for foreign direct investment, attracting nearly 230 billion USD between 2002 and 2005.

### China's Steps to Open the Market

Table 5.2

Year	Event
July 2001	PRC (People's Republic of China) State Council brings China's Equity Joint Venture (JV) Law into compliance with WTO rules. PRC State Economic and Trade Commission (SETC) approves first foreign-invested wholesale enterprise, Shanghai No. 1 Department Store Co. Ltd.
August 2002	MOFTEC (Ministry of Foreign Trade and Economic Cooperation) allows two types of foreign-invested logistics companies: international and third-party logistics companies.
November 2002	China removes 75 % cap on foreign investment in packaging, storage and warehousing, courier, and road transport JVs. China approves first foreign-majority investment in vehicle manufacturing, though not required to do so under its WTO obligations.
May 2003	MOFCOM (Ministry of Commerce) and the General Administration of Press and Publication (GAPP) allow wholly foreign-owned enterprises (WFOEs) in retail book, magazine, and newspaper distribution (seven months early).
June 2003	China National Tourism Administration and MOFCOM allow wholly foreign-owned travel agencies (two years early).
December 2003	PRC State Administration of Radio, Film, and Television permits foreign investment in film-production and film-technology companies.
March 2004	State Administration of Industry and Commerce and MOFCOM allow WFOEs in advertising services.
April 2004	MOFCOM allows foreign-invested wholesale, retail, and franchise companies, as well as commercial-based agencies.
July 2004	China Insurance Regulatory Commission (CIRC) lowers minimum registered insurance companies and eases restrictions on number of offices opened yearly.
December 2004	MOFCOM lifts all equity, geographic, and quantity restrictions on franchising operations.
February 2005	MOFCOM allows WFOEs in the leasing sector.
December 2005	MOFCOM allows WFOEs in freight forwarding agency services and applies national treatment to capitalisation requirements.

Source: WTO.

## Regional Integration

One important exception to the *most favoured nation principle* is comprehensive *trade agreements* that promote economic integration.

Trade and foreign investment liberalisation are reinforced by economic cooperation among countries, mostly within a geographical region. Economic cooperation can take the form of *bilateral agreements* or *multilateral agreements*, reaching from simple contracts on tariff reduction to political integration.

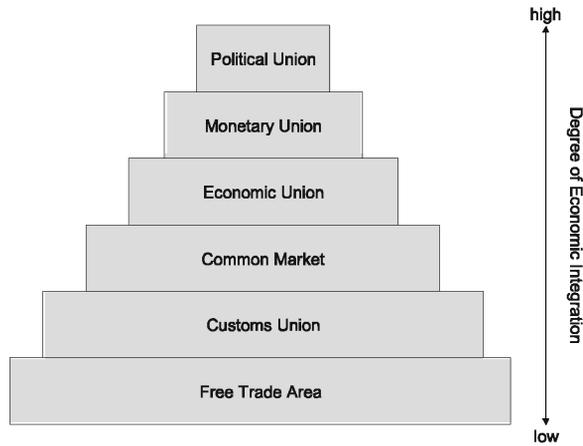
A *preliminary stage* of economic integration is bilateral or multilateral agreements between countries concerning the reduction or abolition of tariffs or other barriers to trade in one or a few product groups. The different stages of economic integration are summarised in Figure 5.2. From the least inte-

*Stages of  
Economic  
Integration*

grated level to the most integrated level they are: free trade area, customs union, common market, economic union, monetary union, political union.

Figure 5.2

Different Levels of Economic Integration



### Free Trade Area

A *free trade area* is characterised by the fact that all formal barriers, especially tariffs, are abolished between the member states for a broad group of products or for all products (and services). Examples of existing free trade areas are:

- *European Free Trade Association (EFTA)*, focussing on free trade in industrial goods, including Iceland, Liechtenstein, Norway and Switzerland.
- *North American Free Trade Agreement (NAFTA)*, including Canada, Mexico and the USA, which led to 90 % of all the trade of Canada and Mexico occurring within the NAFTA countries, while for the USA, its trade with NAFTA countries accounts for one-third.

### Custom Union

While the individual member countries of a free trade area maintain their independent external trade policy with regard to non-members, in a *customs union*, the member countries are committed to eliminating trade barriers corresponding to the free trade area, and adopting a common external trade policy. The most familiar and most important example of a customs union is the *European Union (EU)*, although similar efforts exist in other regions too, such as *MERCOSUR (Mercado Común del Sur)* in the southern part of Latin America. With regards to transaction costs, a customs union has a great advantage compared with free trade areas: *Certificates of origin* are not

needed in intra-trade transactions. In free trade areas, there is always the possibility of realising *arbitrage effects* by importing goods to a “low tariff” country and then transferring the goods to “high tariff” countries within the area. To avoid these arbitrage businesses, certificates of origin are necessary.

A common market has abolished internal tariffs and non-tariff barriers, standardised external tariffs and allows the free movement of factors of production (see Figure 5.3). The only existing common market is the *European Union* (EU), already mentioned as a customs union.

### Common Market

#### Characteristics of a Common Market

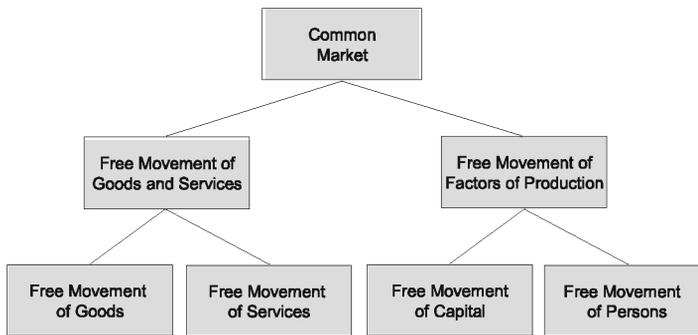


Figure 5.3

In an *economic union*, the next level of economic integration, the member states harmonise their tax and subsidy policies in order to unify their fiscal policy. In this type of union all member nations are fully integrated economically. The European Union intends to realise this stage of economic integration (*Maastricht Treaty, Amsterdam Treaty, Nice Treaty*). However, the implementation process is subject to political and economic difficulties.

### Economic Union

Despite these difficulties, a common currency (*Euro*) has been implemented, as of 1 January 1999. At the time of writing (July 2010), 16 countries were members of the “*Eurozone*”. The dramatic debt crisis in Greece and other countries like Spain, Portugal, Ireland and Italy, revealed deep problems in the Eurozone and it became evident that the monetary union needs to be modified to prevent future economic crises. In Figure 5.2., it is pointed out that an economic union should precede a monetary union. The current proposals from France and Germany point this direction: Both countries demand a “more integrated economic governance” for the EU to ensure the stability of the monetary union (Walker/Gauthier-Villars 2010).

### Monetary and Political Union

The most advanced form of economic integration is a *political union*. In a political union, a body coordinates the economic, social, and foreign policy of its member states. This objective was the basic element of the *Maastricht Treaty* in 1992. In anticipation of this step, the former *European Community* agreed to rename itself the *European Union*, a truly optimistic sign.

## Effects of Economic Cooperation

### *Cecchini Report*

The effects of economic cooperation are diverse. For example, the macroeconomic effects of the implementation of a common market (within the *European Community*) can be observed. According to the so-called *Cecchini Report* (Cecchini 1988, p. 97), the following macro-effects had been expected:

- relaunch of economic activity, adding on average 4.5 % to GDP
- deflation of consumer prices by an average of 6.1 %
- improving the balance of public finances by an average equivalent to 2.2 % of GDP
- boosting the EC's external position by around 1 % of GDP
- creating 1.8 million new jobs.

### *Interim Balance*

An *interim balance* (a report titled "10 years of common market: 1993–2002") identifies many important advantages which could be put down to economic integration (Kommission der Europäischen Gemeinschaft 2003, pp. 2-3):

- The GDP of the European Union in 2002 has increased by 2 % percentage points or 165 billion EUR in comparison with 1993.
- Since 1992, 2.5 million new jobs have been created.
- Prosperity has increased during the 10 years by 877 billion EUR. This corresponds to 5,700 EUR per household.
- The competitiveness of the EU companies has increased. For example, exports to third countries (non-member countries) have increased from 6.9 % of GDP (1992) to 11.2 % (2001).
- The common market has become much more attractive for foreign investors. Foreign direct investment, in terms of percentage of GDP, has more than doubled.

### *Intra-EU Trade*

The effects of the common market with regard to trade within the *European Union* (*intra-EU trade*) are illustrated by Table 5.3. All member states of the EU-27 have an intra-EU trade share of at least 55 %.

Shares of Intra-EU Trade for the EU Member States 2008 (in %)

Table 5.3

State	Quote	State	Quote
Austria	75	Latvia	73
Belgium	73	Lithuania	59
Bulgaria	58	Luxembourg	81
Cyprus	68	Malta	63
Czech Republic	81	Netherlands	64
Denmark	71	Poland	75
Estonia	76	Portugal	74
Finland	59	Romania	70
France	66	Slovakia	79
Germany	63	Slovenia	70
Greece	57	Spain	63
Hungary	73	Sweden	64
Ireland	66	United Kingdom	55
Italy	56		

Source: EUROSTAT 2009.

## Impact of Economic Integration on Firms

The political efforts of GATT/WTO to liberalise trade and foreign direct investment and the different regional alliances eliminating trade barriers, adopting a common external trade policy and allowing factors of production to move freely between members, have led to new markets with regard to sourcing and selling and to new sites for production, logistics and so on (see Part V). Firms can reduce their production costs by capturing *economies of scale* when expanding their customer base within the trading bloc. The lower cost structure will also promote the firm's *international competitiveness* outside the trading blocs. "However, elimination of trade barriers also exposes a firm's home market to competition from firms located in other member countries, thus threatening less efficient firms" (Griffin/Pustay 2010, p. 301).

*New Markets  
and Cross Border  
Value Creation*

## Conclusion and Outlook

The remarkable level of world trade and foreign direct investment can be attributed to the political efforts of GATT/WTO and to the fact that regional integration has intensified and intensified. This results in far-reaching liberalisation within regional cooperations, but also in discrimination vis-à-vis third countries, which is at first glance in conflict with free trade worldwide.

*Trading Blocs  
vs.  
Free Trade*

In the next few years, there will be strong efforts to create new regional co-operations or to intensify the stage of integration, for example in North and South America and Asia. This offers many opportunities for companies with regard to exports and imports, to outsourcing, offshoring, strategic alliances, and greenfield and brownfield investments. If *regional agreement areas* will merge gradually, regional economic cooperation will finally lead to free trade worldwide.

### Further Reading

GRIFFIN, R.; PUSTAY, M. (2010): *International Business*, Global Edition, 6<sup>th</sup> ed., Upper Saddle River, NJ, Prentice Hall, pp. 292-320.

HILL, C. (2008): *Global Business Today*, 5<sup>th</sup> ed., Boston, MA, McGraw-Hill, pp. 261-287.

WOYKE, W. (2002): *The European Union after Nice – A Community Facing a New Century*, in: SCHOLZ, C.; ZENTES, J. (Eds.): *Strategic Management – A European Approach*, Wiesbaden, Gabler, pp. 3-21.

## Case Study: Nissan<sup>1</sup>

### Profile, History, and Status Quo

The origins of *Nissan Motor Co., Ltd.* date back to 1933, when *Jidosha Seizo Co., Ltd.*, the predecessor of *Nissan Motor Co., Ltd.*, was established in Yokohama. After changing its name to *Nissan Motor Co., Ltd.* in 1934, the company commenced the mass production of automobiles in Japan.

Due to shortage of material during the Second World War the company focused its production on trucks, aeroplanes and engines for the Japanese military and significantly reduced the number of cars produced. After World War II the increasing household penetration of cars in Japan, beginning in the 1950s, benefited *Nissan's* sales of small-sized cars for personal use. In the 1960s the company started its overseas activities by establishing the *Nissan Motor Corporation* in USA, the *Nissan Mexicana, S.A. de C.V.* as well as the *Nissan Motor Co. Pty. Ltd.* in Australia. After moving into the marine engine field in 1970 and establishing several production and design facilities over-

<sup>1</sup> Sources used for this case study include the web site <http://www.nissan-global.com> and various annual and interim reports, investor-relations presentations as well as other cited sources.

seas, *Nissan* began its activities in the European market, mainly by acquiring an equity interest in *Motor Ibérica, S.A.* in Spain and establishing *Nissan Motor Manufacturing Ltd.* in the United Kingdom.

Today *Nissan Motor Co., Ltd.* is engaged in planning, developing, manufacturing and selling passenger automobiles as well as automobile parts, forklifts and marine engines, and operates in Japan, North America and Europe. In addition, the company also provides financial services, such as credit cards, loans to purchase vehicles, car leasing, car rental or car insurance – primarily in Japan and North America – through its wholly-owned subsidiary *Nissan Financial Services (NFS)*.

The company has a wide geographical base with operations in regions including Japan, the USA, Europe, Canada, Mexico, Australia, New Zealand, South Africa, the Middle East and Asia. In addition, the group is diversified in terms of revenue generation from those geographic regions: In 2008 the group generated 35.3 % of its total revenues from North America, 27.7 % from Japan, 16.9 % from Europe and 20.1 % from other regions (Nissan 2009a). This geographical spread is one of the strengths of the company as it aids in catering to different markets and reaping the benefits of emerging markets (Datamonitor 2007a). Table 5.4 shows the major offices and facilities (besides the sales network) of *Nissan* in Europe.

*Wide  
Geographical  
Base of Business*

#### Major Offices and Facilities in Europe

Table 5.4

Function	Company / Office / Facility	Operations Commenced	Vehicle Production	Number of Employees	Major Operations / Products
Regional Headquarters	Nissan International SA (Switzerland)	Jan 2008		148	Management of European operations
R&D	Nissan Technical Center Europe (UK)	May 1988		4,825	Vehicle development
Design	Nissan Design Europe (UK)	Jan 2003			Vehicle design
Production	Nissan Motor Manufacturing (UK) Ltd.	Jul 1986	315,297		Qashqai, Micra, Micra C+C, Note
	Nissan Motor Ibérica, S.A. (Spain)	Jan 1983	193,605	4,250	Primastar, Pathfinder, Navara, Atleon, Cabstar

Source: Nissan 2009b.

Over the years *Nissan* has succeeded in creating new product lines, expanding its production volume and reaching the production milestone of the 100 millionth vehicle in 2006. It became one of the leading companies in the Japanese automobile industry with total net sales of 8,437 billion Yen in 2008 (Nissan 2009a).

Table 5.5

Corporate Data Nissan Motor Co., Ltd. 2004–2008

	2004 March 31, 2005	2005 March 31, 2006	2006 March 31, 2007	2007 March 31, 2008	2008 March 31, 2009
Net Sales (billion Yen)	8,576.3	9,428.3	10,468.6	10,824.2	8,437.0
Net Sales (billion EUR, approx.)	64.19	70.69	78.49	81.16	76.22
Global Retail Sales (units)	3,388,592	3,569,477	3,483,128	3,769,886	3,411,048
Retail Sales Japan (units)	848,267	842,063	739,925	721,000	612,482
Retail Sales Overseas (units)	2,540,325	2,727,414	2,743,203	3,048,886	2,798,566
Global Production (units)	3,378,578	3,509,595	3,267,001	3,657,629	3,084,027

Source: Nissan 2009a; Nissan 2009b.

Since 1999 the company has had a global partnership with *Renault* for automobile manufacturing and sales as well as for automotive financing. *Renault* holds a 44.3 % stake in *Nissan*, while *Nissan* owns 15 % of *Renault* shares. The alliance jointly operates *Renault Nissan*, in which both *Nissan* and *Renault* have a 50 % interest, as well as *RNPO* (*Renault-Nissan Purchasing Organization*) and *RNIS* (*Renault-Nissan Information Services*) (Datamonitor 2007b, p. 18).

## Regional Integration in Europe

The origin of European integration goes back to 1950, when French Foreign Minister *Robert Schuman* presented a plan for deeper cooperation between six countries in Europe after the Western European nations created the *Council of Europe* in 1949 as a first step towards cooperation after World War II. Based on the *Schuman plan*, the six founding member states – Germany, France, Italy, the Netherlands, Belgium and Luxembourg – signed a treaty to run their heavy industries – coal and steel – under a common management.

Building on the success of the *Coal and Steel Treaty*, the six countries expanded their cooperation to other economic sectors and signed the *Treaty of Rome*, creating the *European Economic Community (EEC)*, or “common market” with the goal of free movement of people, goods and services across borders. The six removed customs duties on goods imported from each other, allowing free cross-border trade for the first time. They also applied the same duties on their imports from outside countries with the effect that trade among the six founding members and between what is now the *EU* and the rest of the world has grown rapidly (European Commission 2010).

*History of  
the European  
Community*

The foundation of European economic integration is the liberalisation of internal trade. Up to 1993, this process of trade liberalisation within the EC passed through three major phases. The first phase, started in 1958, was the elimination of customs duties and quantitative restrictions, which was completed in 1968 with the introduction of a common external tariff. The successive enlargement from six to twelve members between 1973 and 1986 represented the second major phase. The last phase, ending in 1992, was the completion of the internal market for goods, services, capital and labour (Sapir 1992).

## Barriers to Entry

Conditions or circumstances that make it very difficult or unacceptably costly for outside firms to enter a particular market to compete with established firms are characteristics of barriers to entry. These barriers may derive from several causes, e.g. legal, regulatory or other clearly political barriers to entry are historically very common. In the context of barriers to entry, Porter (1980, pp. 7-17) mentioned some major sources like government policies or capital requirements. Simon (1989, col. 1441) differentiates three main categories: protective, economical, and behaviour-based barriers which are described briefly as follows.

- *Protective or institutional barriers* are mainly concerned with tariff and non-tariff barriers. Such barriers may appear with different characteristics. Regarding exports, they may appear in terms of customs duties. Another form is specific licence requirements. Furthermore, the host country may raise strict local content regulations to protect the domestic industry (Kutschker/Schmid 2008, p. 959). Other widespread types of protection by dint of barriers are subventions. These are arrangements which do not count among tariff barriers but are regarded as non-tariff. All such restrictions and instructions are based on state determinations.
- One of the *economic barriers* to entry is economies of scale of companies which are already established within a market. Porter (1980, p. 7) mentioned in this context that “economies of scale deter entry by forcing the entrant to come in at large scale and risk strong reaction from existing firms or come in at a small scale and accept a cost disadvantage, both undesirable options”. Furthermore he cites the product differentiation of established firms (Porter 1980, p. 9) which generates, among other things, a higher customer loyalty, as an undeniable barrier.
- *Behaviour-based barriers* arise from customer behaviour and other stakeholder interests which are based on special preferences, cognitions or habits. Reasons for the occurrence of such barriers do not necessarily

### Categories of Barriers to Entry

have to be found beyond the companies. The emergence of behaviour-based barriers may also be based on the personality of management itself, which represents an internal source for such a barrier. Paucity of information about foreign markets, mental barriers or risk aversion of the management represents other behaviour-based barriers which occur inside the firm.

## **The Strategy of Nissan Motor Co., Ltd. in the 1980s for Developing the European Market**

### **Japanese Carmakers Hitting the European Market**

In the late 1970s and the beginning of the 1980s there was a general movement of Japanese carmakers trying to develop foreign markets, mirroring a global expansionary trend. For example, the market share of Japanese firms in the US automobile industry rose from 5.7 % in 1971 to 19.1 % in 1980 (Berry/Levinsohn/Pakes 1999, p. 414). In the European region, Japanese carmakers had to face two main problems in seeking to increase their share of European markets by exports. On the one hand a problem was that the strongly appreciating yen made exports difficult, and on the other hand political resistance to growing imports, reflected in voluntary export control arrangements, limited the share of the European market which could be acquired via exports of Japanese carmakers.

In the 1970s the global car industry was under pressure from Japanese exports and a reduced demand for cars in the wake of 1973 oil crisis. In response to the Japanese expansion, allegations of dumping and subsequent representations were made by a number of European countries attempting to persuade the Japanese car makers themselves to limit their export volume. Formal discussions between the Japanese and the UK industry led to the voluntary export control arrangements mentioned above (Walker 2004).

### *Import Restrictions for Japanese Car Manufacturers*

The penetration of some important European countries, like France, Italy and Spain proved to be difficult due to significant import restrictions. For example, the French car market limited the imports of Japanese cars to five manufacturers with a total market share of 3 %. In Spain, one of the fastest growing car markets in the late 1980s with more than one million units in 1988, there was a quota which allowed just 3,200 units to be imported by Japanese carmakers, including imports via other EC countries. The Italian car market had been highly restricted since 1957 and in 1988 Japanese car imports were restricted to only 3,300 units. In other European countries, such as Ireland, Denmark, Finland, Norway and Austria, lacking a historical domestic automobile industry and without any restrictions on motor vehicle

imports, Japanese carmakers held more than a 30 % market share. This fact shows that the possibilities for gaining greater market shares in the other European markets were strictly limited (Quelch/Ikeo 1989).

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#### *Local Production of Japanese Carmakers in UK in the Late 1980s*

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*Table 5.6*

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Company	Outline
Nissan	manufacturing 57,000 upper-medium-sized cars a year in 1988
Toyota	planning to manufacture 200,000 upper-medium-sized cars a year from 1992
Honda	manufacturing 84,000 medium-sized cars a year (in 1987) jointly with the Rover Group
Isuzu	manufacturing 5,400 commercial vehicles a year in 1987 in joint venture with General Motors

Source: Quelch/Ikeo 1989, p. 13.

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As a result, the Japanese companies were compelled to establish production facilities within the *European Community* by FDI, via acquisitions, mergers or joint ventures, to increase their market share and to secure a long-term position in this market (Hudson 2002, p. 15).

Several Japanese carmakers, in anticipation of the *European Community* market integration to the European Single Market in 1993, searched for production sites within the European region where they could implement their high volume flexible production methods. This was difficult to introduce in regions with a history of automobile production with existing working practices and wage arrangements. Consequently a number of the Japanese companies decided to invest in the United Kingdom because of national government policies, fixed capital investment subsidies and adequate labour markets.

#### **Entry and Operating Strategy of Nissan Motor Co., Ltd. in Europe**

In 1959 *Nissan* started its European market penetration with exports to Finland because there was a major focus on northern Europe until the late 1960s. At this time, protectionism against the increasing car exports of Japanese carmakers occurred in several countries, as shown above, so that the Japanese companies decided to implement local production in the European market to develop the European region. *Nissan's* decision to start assembly operations in Europe was not only a response to growing protectionism but also reflected its problematic position within the Japanese domestic market, where *Toyota's* market share was roughly double that of *Nissan*. *Nissan* was

*Decision for  
Sunderland, UK*

driven to seek competitive advantage overseas because of its difficulty in maintaining market share in Japan (Hague 1989, p. 5).

*Nissan* became the first Japanese firm to set up a plant in the UK. *Nissan* made the final decision to locate its first production facility in Europe at a location near Sunderland, in the North-east of England, in 1984, after many years of searching and negotiating for the ideal location.

The final decision was influenced by three deciding factors:

- First, *Nissan Motor Co., Ltd.* required a greenfield site to build up its production facilities with enough space for further expansion in the future. A coalition of the local council and development corporation were able to offer *Nissan* a 930-acre site, the former Sunderland airport.
- The second factor which influenced the decision in favour of Sunderland was that the negotiating council could offer the site as a single-union plant.
- The third reason for choosing the North-east region of England was the similarity of this region to the Ohio-Tennessee region of the USA, where most of the Japanese automobile transplants were located and *Nissan* and other Japanese carmakers had gained experiences before. The similarities mainly included the high unemployment rate, a relatively ethnically homogenous population, necessary logistical criteria and the availability of government subsidies.

*Nissan* received a total of 112 million GBP in subsidies from the British government as an incentive for locating the production plant in Britain. Because the activities of *Nissan* promised jobs and some prospect of industrial renewal in a region with long-standing high unemployment rates, the company was pursued with total commitment by North-eastern development agencies and by representatives of major regional political and economic interests acting in a united and highly coordinated way (Crowther/Garrahan 1988).

Initial plans to invest 330 million GBP to build the factory with an output of 200,000 cars were drastically reduced in the beginning. The Sunderland plant started with an investment of 50 million GBP and a production of 24,000 vehicles. The company quickly agreed to major expansions resulting in a production of 100,000 cars and the creation of nearly 3,000 jobs for the region (Rehder/Thompson 1994, p. 97).

In the following years the Sunderland factory became the UK's biggest car plant and was widely recognised as the most productive in Europe. Today the Sunderland plant employs 4,000 people and produces around 350,000 cars per year.

## Local Production of Japanese Carmakers in the European Union

Following the initial operations in the late 1980s, the strategy of implementing local production facilities proved to be a general concept of the Japanese car manufacturers within the European market. Japanese manufacturers have been progressively establishing ties in various countries of the *European Union* over the past two decades to develop Europe as the second largest automobile market after the USA. *Nissan* was the first to establish its own independent operations in the United Kingdom and other manufacturers quickly followed. Outside the UK, operations included a *Toyota-Volkswagen* tie-up in Germany, a *Nissan* tie-up and a *Suzuki* tie-up in Spain, a *Toyota* joint venture and a *Mitsubishi* tie-up in Portugal, and a *Mitsubishi* joint venture in the Netherlands, *Suzuki* has also established a joint venture operation in Hungary (JAMA 2008).

*Selected Production Facilities of Japanese Carmakers in the European Union*

*Table 5.7*

Manufacturer	Company	Location	Start of Operation	Units Produced in 2008	Employees
United Kingdom					
Nissan	Nissan Motor Manufacturing (UK) Ltd.	Sunderland	1986	386,555	4,352
Toyota	Toyota Motor Manufacturing (UK) Ltd.	Burnaston Deeside	1992	213,000 -	4,280 570
Honda	Honda of the U.K. Manufacturing Ltd.	Swindon	1992	230,423	3,400
Spain					
Nissan	Nissan Motor Iberica S.A.	Barcelona, Avila	1983	156,961	5,540
Suzuki	Santana-Motor, S.A.	Linares	1985	3,189	558
Portugal					
Toyota	Toyota Caetano Portugal, SA	Ovar	1968	-	360
Mitsubishi Fuso	Mitsubishi Fuso Truck Europe S.A.	Tramagal	1996	10,856	357
Hungary					
Suzuki	Magyar Suzuki Corporation	Esztergom	1992	281,686	3,774
Poland					
Isuzu	Isuzu Motors Polska Sp.zo.o	Tychy	1999	142,932	632
Toyota	Toyota Motor Manufacturing Poland Sp.zo.o	Walbrzych	2002	-	2,070
Toyota	Toyota Motor Industries Poland Sp.zo.o	Jelcz Laskowice	2005	-	1,070
Czech Republic					
Toyota	Toyota Peugeot Citroen Automobile Czech, s.r.o.	Kolin	2005	108,000	3,410

Source: JAMA 2009, p. 5.

Furthermore there are numerous supply and marketing alliances between Japanese and European manufacturers. Within the time period between the first expansion of the European Union and its development to the current state, the strategy and the operations of Japanese car manufacturers fol-

lowed this path. For example, the accession of Southern European countries such as Spain and Portugal to the EU in 1986 led to the Japanese carmakers *Nissan*, *Suzuki* or *Mitsubishi* making huge investments in local facilities there. In the course of the Eastern enlargement of the European Union in 2004, these developments continued. For example, when Hungary, Poland and the Czech Republic became members of the EU, plants were set up by *Suzuki*, *Isuzu* and *Toyota*. There has been a similarly strong involvement of Japanese carmakers within the newer members of the EU located in Eastern Europe. Table 5.7 shows selected production facilities of Japanese carmakers in the EU. Today Japanese carmakers operate 15 production facilities in ten EU countries. In 2008 these manufacturers produced 1.69 million vehicles in the EU, so that the production has nearly tripled since 1995 (JAMA 2009, p. 4).

### Questions

1. Summarise the main problems for Japanese car makers in the late 1980s concerning the development of the European market. Describe the political and economic environment they had to deal with.
2. Describe which main factors led to the decision of *Nissan* to implement a local production plant, and especially which circumstances led to the choice of Sunderland, UK.
3. Generally Japanese carmakers had different options concerning their market entry and operating strategy. Discuss why *Nissan Motor Co., Ltd.* decided for FDI and which other possibilities it had. What are the main advantages and disadvantages of other modes of market entry? Compile factors that influence a company's choice of entry mode.
4. Define different types of market barriers and show their effect on the entry mode. Explain different strategies a company can use to deal with entry barriers in the context of the internationalisation of its business. Give some examples.

### Hints

1. See Part IV of this book for a description of different market entry modes and see Luo 1999 for an explanation of factors affecting entry mode selection.
2. See Kotabe and Helsen 2008 and Johansson 1997 for details of market entry barriers.