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1 January 2004

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MPRA Paper No. 103896, posted 02 Nov 2020 16:00 UTC

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Citation:

Bayari, Celal (2004) 'Japanese Business in Australia: A Management Survey of Industry Interaction with Locational Factors'. *The Otemon Journal of Australian Studies*. 30: 119-149. 2004. ISSN 0385-3446.

JAPANESE BUSINESS IN AUSTRALIA: A MANAGEMENT SURVEY OF INDUSTRY INTERACTION WITH LOCATIONAL FACTORS

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Abstract

This is a discussion of research findings on the interaction of the Japanese firms with Australia's locational factors that affect their investment decisions in Australia. The paper argues that there is a convergence as well as divergence among the sixty-five companies from three industrial sectors on ten different factors affecting satisfaction that is reported by the management and the other variables that characterise the firms.¹

Japan-Australia relations: Introduction

Japan has always captured the imagination of Australian business leaders and politicians (Stockwin 1972, Meaney 1988) and economic planners (Japan Secretariat 1984) in the post-war era. In the Japanese media the image of Australia is one of a tourist location and raw materials supplier that buys cars and electronics goods from Japan (*The Japan Times* 2001: 15). Australian exports to Japan add up to 380,000 jobs, AUS \$1,300 for every Australian, and 4% of the GDP (Vaile 2001). Australia has always been fascinated with Japan's apparent strength in determining domestic business policy for outward-bound expansion in the boom period of the 1980s (Japan Secretariat 1986, Australia-Japan Relations Symposium 1986, 1988). The relationship between the two countries has been a distinct consideration in shaping Australian responses to regional economic affairs (Crawford and Okita 1976, Toyama and Tisdell 1991). The economic links between the two countries have often resembled a mirror image of the global developments. In the early 1980s, Japan and Australia exhibited effective and substantial joint leadership in the process that led to the establishment of APEC that was a significant achievement among all the globalisation currents. "Their...regional profiles helped Tokyo and Canberra cooperate in soliciting a regional consensus about the value of the regional institution for multilateral cooperation, not only for Asian countries but also for the United States" (Soeya 2001: 23). In the growth environment of the 1980s many scenarios that included visions of great potential for Australia's resources and Japanese 'know-how' became redundant. One 'if only...' scenario in Australia-Japan relations was the

failure of MFO (multi function polis) project. Multi Function Polis was prematurely celebrated by Japan experts in Australia (Inkster 1991) and journalists (Hamilton 1991) and was subsequently abandoned due to several factors none the least was the end of Japan's 'bubble economy'. The cancellation of the project proved to be major letdown for the planners, politicians, academics and the business world alike (Parker 1998). The project was seen as a failed attempt of technology transfer that was going to be significantly different from the usual foreign direct investment concerns between Australia and Japan (Tsuru 1993: 202). In the 2000s the two governments noticed a bilateral lapse in the interest in the relationship and a neglect of the bilateral links. This resulted in major official initiatives. The report, which was produced by the Department of Foreign Affairs and Trade (De Bouver and Warren 2001) looked at the topic from the point of view of trade management and liberalisation. Further, a monograph became the end result of a Senate sub-committee inquiry into the relative lack of recent initiative on the Australia-Japan relations (Senate Foreign Affairs, Defence and Trade References Committee 2000). It became apparent that a concerted effort by the two parties to find a new medium for economic linkages was on the way. Around the same time another report that was commissioned by Tokyo compared the relationship to a long-term marriage where the partners "have no real strong interest in each other" (*The Japan Times* 2001: 15). The marriage allegory must be trans migratory as the report commissioned by Canberra also defined the link as being of "interest in each other [that was] waning" (de Bouver and Warren 2001). Japanese economy has been recently likened to a phoenix due to its apparent ability to regenerate as it has over four decades ago which was an achievement the nation is tipped to repeat (Katz 2003a, 2003b). There are indications that corporate restructuring in the Japanese manufacturing and construction sectors have been completed (Deutsche Bank 2003) and that the banking system is coming to the end of its bad loan write-offs (Perennial Investment Partners 2003) hence possibly creating the conditions for a Japan *Mark II* by 2006. It is reported that Australia's biggest trade partner is tipped to grow 3 percent in 2004 and there is hope Japan can return to being a dynamic force (Lunn 2003: 17). Globalised and globalising *kaisha* and their overseas activities remain relevant. It has been viewed previously that Japan is located in a region with high concentration of *growth triangles* that are fast evolving transnational economic zones (Tang 1998). Their evolution has interacted with *keiretsu* networks also has irreversibly modified even the Australian business practices (Shelton 1995).

Japanese Business

Japanese MNEs have adapted to the foreign business environment in the last two decades. How they continue to adapt and what they think as *satisfactory* business conditions for continued investment remain important research questions. The research on MNEs significantly identify Japanese firms as making use of business strategy that are far more global in comparison to other nations' multinationals (Gnan and Songini 1995). Japanese MNE activity remains relevant despite the 'lost decade'. Japanese business system may, in fact, develop to be a global standard. Its proven success, durability and adaptability can put it ahead of the US and European models (Beeson 1998: 249). It has been over a decade since the publication of *The Australian Economy in the Japanese Mirror* by Professor Kyoko Sheridan (1992). Since then, the changes in Australian economy and the composition of capital have been significant (Bayari 2001c) as the economy has been 'reformed' by the lowering of the tariffs and the removal/reduction of industry protection throughout the 1980s and 1990s (Frankel 1997: 15). The economy is today more open than most of its trading partners in Asia and opening further (Richardson 1999). The liberalisation of the economy has implications for the Japanese MNEs that are in Australia, especially the manufacturers. There are factors that can be analysed in terms of the satisfaction of the firms that they affect. Based on the discussions of previous research this paper focuses on ten locational factors that are below discussed by using the data collected from sixty-five companies.²

Japanese Trade

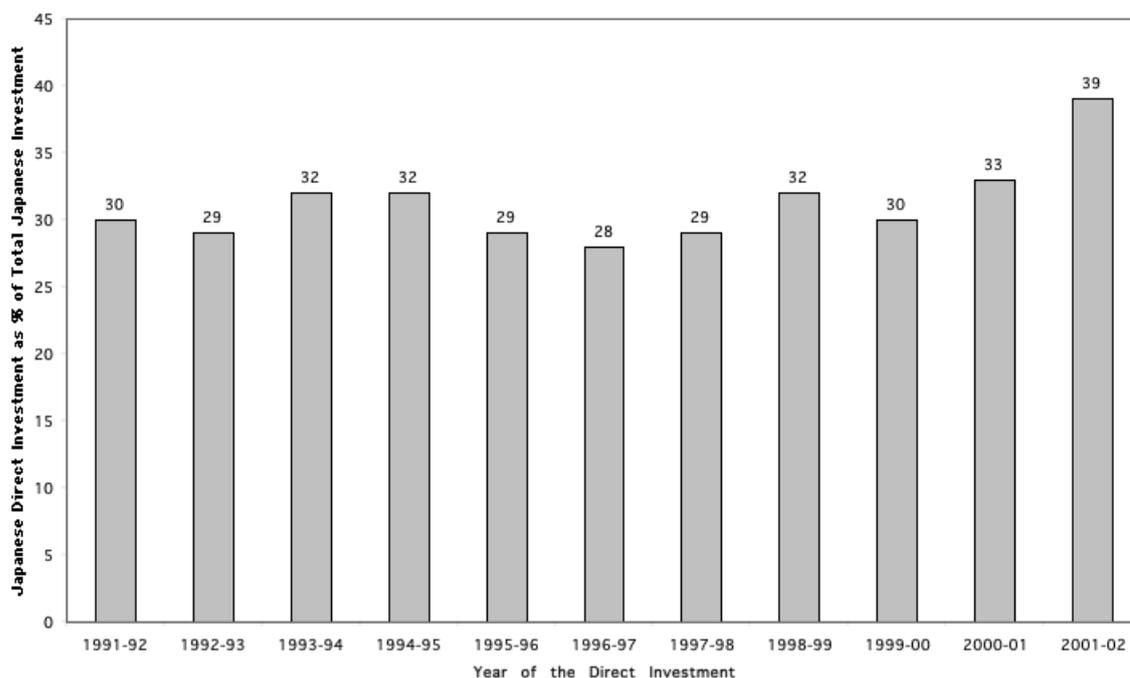
The historical trend in Japan-Australia trade relations is one of steady nature. Australia has continuously a net surplus and exports predominantly 'Crude materials, inedible, except fuels' and 'Mineral fuels, lubricants and related materials' and imports among other things mainly 'Machinery and transport equipment' which is displayed in 'Table: Japan-Australia Trade, Exports and Imports by Commodity'. Table 1 shows the last decade of the trade figures whereby it can be observed that (highlighted in grey) the bulk of the exports as well as imports are of the same nature. It is also important to recall how this point was arrived at. Exports to Japan increased significantly after 1973 when the UK entered EC literally ending two centuries of preferential treatment for the Australian exports as a result of its obligation to EEC tariffs (Toida et al. 1994). Table 2 shows the significant change between the export and imports figures for

Japan and the UK from 1960-61 to 1970-1971. As the UK's preferential link with Australia was severed a new line was established with Japan's growing need of supply of reliable high-volume exports from nearby regions. Japanese *sogo shosha* (general trading companies) manage a large percentage of Australia's trade with Japan (CEDA 1997: 54). Japan is Australia's largest trading partner however, Australian economy's share of Japanese imports has been shrinking since 1991. This is due to the fact that Japan's imports are increasingly in the manufactured goods while primary commodities dominate Australian exports to Japan (Bayari 2000a). While Japanese trading companies have been operating in Australia for a long time, some over a century, they have been reluctant to invest in manufacturing and remained as trade agents.³

Japanese investment

The United Kingdom is the first country that dominated fdi in Australia, which was surpassed by the USA in the postwar years as the major investor, while Japan became the third biggest investor. Intense targeting of local consumption was the reason for the investment from the United States and Japan (Beeson 1997, Drysdale 1993). Japan has been the most important destination for the Australian exports of natural resources in postwar period but Australia is perceived as a sparse market for foreign investment that is far from major population centres (Johns 1994: 442). This is treated in detail below in the discussion of location factors. Japanese non-manufacturing investment made up ninety per cent of the total Japanese fdi as reported in an earlier study (Hutchinson and Nicholas 1994: 2). The manufacturing fdi in Australia by Japanese MNEs has been crucial but quite insignificant compared to Japanese involvement in mining, finance and banking, service industries and real estate.

Chart 1: Japanese Direct Investment as % of the Total Japanese Investment



Data Source: Compiled from ABS 5352.0 (2003) *International Investment Position Supplementary Country Statistics*.

The collapse of the so-called 'bubble economy' reduced the Japanese MNEs fdi in Australia and during the 1990s Australia's share of overall Japanese investment continually declined (JETRO 1995).⁴ Second half of the 1980s had witnessed a surge in the number of Japanese MNEs in the tertiary sectors of finance, insurance, property and business services (AJEI 1989: ii). Finance and insurance companies, which at one point represented a higher percentage of the fdi, came to Australia to service their Japanese clients as a part of the parent's internationalisation strategy in a growing and liberalised investment market (Nicholas et al. 1996a: 10). However, Japanese banking and insurance companies withdrew from overseas markets, including Australia, in great numbers, by the end of 1990s as they lacked international competitiveness (Kiyota 2001). The composition of the Japanese fdi in Australia (Table 3) has been dominated by securities portfolios since 1991 in line with Australian market deregulation in the late 1980s after which Japanese finance and insurance MNEs entered the Australian financial sector (Drysdale 1993, Tsuru 1993, Hutchinson and Nicholas 1994). Comprehensive data of the types of industries in which Japanese companies invest Australia is currently not available, however total investment amounts, divided into direct investment, portfolio investment and financial derivatives, are collected and collated by Australian Bureau of Statistics per investing country.⁵ Foreign investment levels

in Australia stood at \$844.5 billion at the end of the 2002 financial year and the top five investors in Australia were as shown in Table 4.

Table 4: Foreign Investment Levels in Australia⁶

Origin	Investment	% of the total
USA	\$242.1 billion	29%
UK	\$223.9 billion	27%
Japan	\$48.0 billion	6%
Hong Kong	\$39.4 billion	5%
Singapore	\$31.9 billion	4%

Data Source: Compiled from ABS (2003) 5352.0 *International Investment Position Supplementary Country Statistics*

The Bureau also publishes *Private Capital Expenditure and Expected Expenditure* 5625.0 which does not distinguish between the countries though a trial publication was attempted in 2001 that was entitled 'Ownership characteristics of business undertaking capital expenditure in Australia, 1998-1999'. Even though there were no subsequent publications the trial publication highlighted significant differences between different states in terms of the investment types (mining, manufacturing and others) and the country of origin. The only information that was specifically related to Japanese investment was the statement that 'Japanese owned-firms made...significant contribution' (ABS 2001: 2) and that 'there was significant Japanese investment in Queensland, but less Japanese investment in other states' (ABS 2001: 3). What the data in Chart 1 shows in terms of the Japanese direct investment is that in the last eleven years it has fluctuated between 29 per cent and 39 per cent of the total Japanese investment. The composition of foreign investment in Australia has changed rapidly in the last decade and although a comparison between Japan and other countries may be interesting it would also be misleading as the differences between volume of transactions from different countries are vast. Japanese direct investment as percentage of the total Japanese investment has been generally on the increase since 1997-1998 after a brief decline after 1994-1995 (Chart 1). This highlights the importance of researching what, as in the discussion of ten business factors in this paper, are the most satisfactory aspects of doing business in Australia.

MNE Theory

The multinational enterprise is a product of global economic environment. MNE theories explain numerous phenomena that arise from MNE activity. Dunning's *eclectic paradigm* has been built, over several decades, as a theoretical framework

that encompasses several elements from other theories (Harzing 1999, Purcell et al. 1999a; Nicholas et al. 1996a, 1998). Dunning argues that three conditions have to be met before an MNE engages in foreign production:

(1) It possesses net *O* [ownership-specific-my addition] advantages *vis-a-vis* firms of other nationalities in serving particular markets. These *O* advantages largely take the form of the possession of tangible assets or of the advantages of common governance

(2) it must be more beneficial to the enterprise possessing these advantages to use them (or their output) itself... through an extension of its existing value added chains or the adding of new ones. These advantages are called internalization (*I*) advantages.

(3) Assuming conditions (1) and (2) are satisfied, it must be in the global interests of the enterprise to utilize these advantages in conjunction with at least some factor inputs (including natural resources) outside its home country. These advantages are termed the locational (*L*) advantages of countries. (Dunning 1988c 26)

Dunning argues that all international production can be explained by different configuration or interaction of these conditions. There are several other theoretical constructions for understanding MNE activities that are not incompatible. Caves suggests that brand name or trademark is a core asset which a firm can use as an organisational advantage to be a successful MNE (Caves 1974). Kojima argues that MNEs can be agents of exchange for what they lack and what the host nation needs (Kojima 1993). MNEs are thus companies that use their own capital and other tangible and intangible assets (Dunning 1971). The difference between an MNE and the domestic firms of the same nation lies in the act of MNE's internalising previously external markets via fdi (Enderwick 1982: 76). MNEs are identified by being present in more than one country's production facilities of any kind (Dunning 1971, 1974a, 1985).⁷ Vernon's *product cycle paradigm* refers to the lead of innovation that provides the firm with an advantage of exports and fdi to exploit the profit opportunity, and fdi takes place in context of matured product and standardised production process that takes advantage of these to produce behind tariff walls (Vernon 1966). Vernon's suggestion that MNEs play an active role in adapting and standardising products as they advance to maturity is compatible with the *eclectic theory* (Casson 1991: 374). Porter focuses on the link between the strategies that MNEs utilise and the competitive advantages of their host nations that is a transfer of indigenous competitive qualities via MNE activity into the international arena (Porter 1990: 71-72). Market situation is hence inevitably linked to MNE theory as in Hymer's argument that domestic firms, of a particular, that grew to be international had certain

monopolistic advantages to begin with. Such firms carry out fdi to gain monopoly of the domestic markets of other nations and to earn the highest possible benefit hence the international firm supersedes or internalizes the market via fdi (Hymer 1960: 48). Aliber suggests that MNEs must possess advantages to overcome the incurring of additional costs associated with their fdi (Aliber 1970: 127) and that MNEs of nations with stronger currencies have such advantages over companies of weak currency nations (Aliber 1970: 137-138). Though it is not compatible with the *eclectic paradigm*, Aliber's thesis does not explain why the currency strength would be sufficient as an ownership advantage while many MNEs compete with advantages other than strong currency (Dunning 1988a: 49-50). The *eclectic paradigm* of Dunning and the internationalisation theory of Casson converge on the premise that MNE fdi creates production and trade, which should be seen in an integrated framework, even if such an analysis would require further factor inputs (Dunning 1993a, Casson 1991). Hence, the *eclectic theory* and the *internationalisation theory* of MNE are often assessed in conjunction with each other (Clegg 1987: 1). The *eclectic paradigm* and the internationalisation and internalisation (of previously external markets) paradigms intersect. Internalization as a factor and outcome of fdi is utilised by several authors (Dunning 1988h, Casson 1991, Rugman 1987, 1990) and refers to international market activity of a MNE and that "proprietary firm specific advantages yield economic rents when exploited on world-wide basis" (Rugman 1990: 17). However, the *eclectic paradigm* is a more extensive and much larger system that it actually incorporates ownership, location and internationalisation advantages (*OLI*) while embracing the essential features of the internationalisation paradigm (Dunning 1997: 334). This is because the *eclectic paradigm* assumes ownership advantages to be a determinant of foreign production while the internationalisation paradigm treats it as an exogenous variable (Dunning 1993b: 252). There are several non-economic organisational advantages within the *OLI* paradigm and that country-specific political, legal, ideological and cultural differences may fundamentally affect the ability of firms to generate and sustain competitive advantages (Dunning 1988b: 320). This may well be the case with the Japanese MNEs in Australia which are parts of larger *keiretsu* networks that have been in doing business here for decades. Their non-economic organizational advantages could partially explain their continuous presence here even though further research is necessary to formalize the locational factors discussed in this paper with more data.

Data Summary

The survey data consisted of sixty-five Japanese companies from three sectors as displayed in Table 5 and 6.

Table 5: Distribution of the firms

Company Type	%
Auto	6
Auto-parts	9
Banking	6
Electronics	15
Food & agriculture	3
Insurance	2
IT	3
Other manufacture	6
Other marketing	14
Other service	17
Plastics/rubber	3
Sogo shosha	12
Tourism	3
Total	100

Among the respondents, electronics and sogo shosha was the most common which auto-parts, automakers and banks followed. The variety among the respondent companies shows the extent of the economic interdependency between Japan and Australia. Only two per cent of the respondents were joint ventures with rest being fully Japanese owned businesses. A great majority of the respondents (65 per cent) had recorded their largest expansion in 1990-2000 with twenty-three per cent having achieved the same result in 1980-1989.

Table 6: Industry type and staff number (%)^{8 9}

Staff No	M&A	M&S	S
<100	22	78	75
>=100	78	22	25
Total	100	100	100

The contribution of the manufacturing and assembly sector to the employment is apparent in the results displayed in Table 6 in which a great majority of the firms from the two other sectors have staff numbers that are less than 100 people. Seventy-eight per cent of the firms from the marketing and sales (M&S) sector had staff less than 100 compared to 75% of those from the service sector (S) and 22% of the firms from the manufacturing and assembly (M&A) sector. The even division of the manufacturing and assembly firms between the periods of pre-1984 and post-1984 possibly signifies that the deregulation in the 1980s had a role to play in this sector.

Table 7: Industry type and market-entry year (%)

Market Entry	M&A	M&S	S
pre-1984	50	74	45
1984-and later	50	26	55
Total	100	100	100

The increase in the number of Japanese tourism, banking and finance MNEs in the post-deregulation Australia is reflected in the survey results whereby 65% of the surveyed firms in the Service sector were set up in the period 1984-and after. This may have been also due to the decade of the 'bubble' economy in Japan where the limitations for domestic investment was duly reached in the coinciding period. The percentage for the marketing and sales sector that were post 1984 entrants was much smaller for the same period at 26%. This may signify that this sector does not rely on the elements of the market that were deregulated and that the market was suitably served by these firms through means other than foreign investment.

The Analysis of the Variables¹⁰

The topics and the issues this paper is analysing are part of a large assembly of factors that foreign companies find in the economies, Australia in this instance, which they invest. The paper analyses the variable in the framework of the historical development of the issues or the varying relevance of the factors to each sector. Below, the paper will look at the three-sector distribution of the business satisfaction and convergent and divergent trends among the variables (Charts 2).¹¹

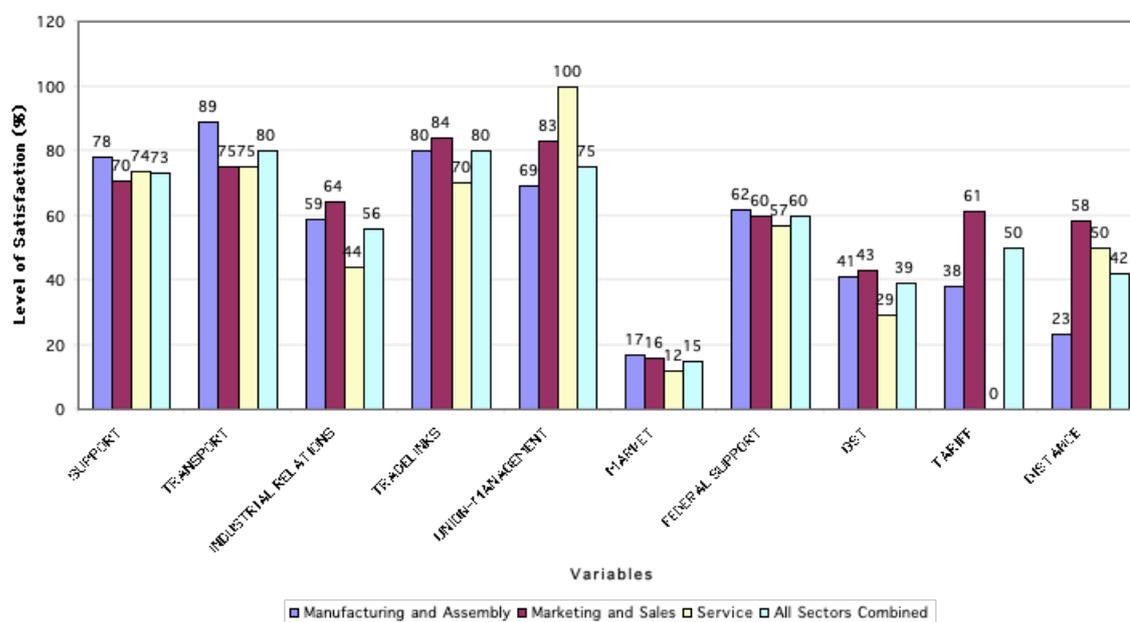
Table 8: Means, standard deviations for three sectors¹²

Variables		M&A	M&S	S
SUPPORT	M	1.2222	1.5926	1.4444
	SD	0.6468	0.9306	0.8944
TRANSPORT	M	1.8333	1.5556	1.2222
	SD	0.9852	0.8473	0.6831
INDUSTRIAL R.	M	1.8333	1.7778	2.1000
	SD	0.9852	0.8916	0.9119
TRADELINKS	M	1.5000	1.5185	1.8000
	SD	0.7859	0.7000	0.6959
UNION-MANAGEMENT	M	1.7222	1.8519	1.9500
	SD	0.8264	0.4560	0.2236
MARKET	M	2.6667	2.6296	2.6500
	SD	0.7670	0.7415	0.6708
FEDSUPPORT	M	1.8333	1.8889	1.9500
	SD	0.8575	0.7511	0.6048
GST	M	2.1667	2.1111	2.3500
	SD	0.9852	0.9337	0.8751
TARIFFS	M	2.1667	1.8519	2.0500
	SD	0.8575	0.8182	0.2236
DISTANCE	M	2.3889	1.9259	2.0000
	SD	0.7775	0.6752	0.5620

Support from parent company

Japanese MNE structures operate on the acute division of parent/subsidiary separated into further managerial units, unique to their global organisation which makes continuous support necessary (Aoki 2000: 135-137). Support from parent company is a crucial factor in foreign investment and was found to be most relevant for the subsidiaries' top management in instances where localisation of the middle management occur as per an earlier study of Japanese firms in Australia (Jackson 1991: 109). Even if a MNE subsidiary can be identified with the host country there still exists a 'distance' (*psychic distance*) between the subsidiary and the foreign investment location (Dunning 1971: 46). Support from homebase is positively correlated to this 'distance'. The wider the gap the higher the need for support from HQ, which is observed to be most relevant for manufacturing and assembly firms.

Chart 2: Japanese MNEs and satisfaction levels with ten factors



In a previous study, the variable 'part of worldwide operations' had scored 2.9 (manufacturing sector), 3.5 (finance sector) and 2.7 (tourism sector) respectively in terms of its importance as a competitive advantage (Purcell 1999: 75).¹³ This signifies the process of financial integration as the chief dynamic of globalisation. In fact in the same survey the 'parent firm's reputation' was also given as a competitive advantage of the highest importance again by the finance companies (Purcell 1999: 75). In the present survey the SUPPORT variable had the highest reported satisfaction by the manufacturing and assembly sector (78%), followed by the service sector firms (74%) and the firms in the marketing and sales firms (70%) in Chart 2.¹⁴ The subsidiaries can import the ownership advantages of their parent companies (Dunning 1988c: 115). While Japanese MNEs transfer work practices to Australia through foreign investment they also transfer technology through their subsidiaries. Surveys have shown these transfers to be of "state of the art technology" compared to the technology the UK and USA MNEs brought into Australia (Hutchinson and Nicholas 1994, Nicholas et al. 1996a). Such transfers reflect a deliberate strategy by the Japanese parent to design and an optimal structure within the subsidiary that allows the parent to exploit the competitive advantages that led it to invest in Australia most efficiently (Purcell et al. 1999: 74-75). The importance of support from home for the Japanese MNEs in Australia is obvious. The Japanese MNEs in Australia chose to internalise the

technology, instead of licensing or selling it outright, hence fully utilising the ownership advantages of asset kind. The success of this is correlated with the support levels. Marketing and sales sector enjoys the highest support level, followed by service and assembly and manufacture sectors which reflect the actual amount of support they require for maintaining investment (Table 8).¹⁵ The necessity for continuous high capital outlay and the concentration of high staff numbers (Table 6), assembly and manufacture sector has the highest financial dependence on the parent firm, followed, for the same reasons, by the service sector firms. Marketing and sales sector has the lowest concentration of firms with staff of over 100 (Table 6) in tri-sector distribution. It also has the least need of capital injection and the smallest degree of dependence on the parent, hence the highest levels of satisfaction.

Transport in and out of Australia¹⁶

In a previous survey of Japanese MNEs, in a scale of importance from low (1) to high (9) import duties got a high score of 6.3. The other scores were: transport costs (5.6), government policy (5.3), non-tariff barriers (5.1), energy costs (4.6) with Australian wage rates (3.8) and industrial relations (2.9) both ranking low (Hutchinson and Nicholas 1994: 8-9). Thus, in previous research the transport factors was found to be the second most important factor, possibly due to the prior history of waterfront conflicts. In the present survey, for the manufacturing and assembly firms, TRANSPORT scored 89 per cent satisfaction. This is followed by the marketing and sales sector and service sectors at 75 per cent each which indicates a higher level of reliance on transport in and out of Australia. It is difficult to sustain a theory about which factors can be combined to measure the attractiveness of further Japanese foreign investment in Australia given that factors such as wage rates and industrial relations have very low scores. These are several ideological thrusts of the international management discourse that explains the lack of 'charm' of the Australian manufacturing to international investors.¹⁷ However Australia's reliance on shipping lines, none of which is nationally owned, is a business factor like no other. Manufacturing and transport have the highest degree of co-dependence. Reducing transport costs is one reason Toyota tried to eliminate components sourced from Japan from its cars in the past three years, scouring the industry for alternative components in a bid to make Altona plant 'a yen-free zone'" (Asano 2002: 24). As a result, the company was able to increase local value added production (parts and costs) from 75 per cent to

83 per cent (Porter 2002: 24). A sector with significant transport costs is mining. The export share of mine ores is high and when coupled with the high levels of foreign ownership in this sector the importance of transports costs become clear. In fact in some ore mining sectors foreign ownerships is high, as is the case with gold mines whose the foreign ownership is seventy per cent, having risen from a mere twenty per cent in 1997 (AAP 2002: 24). Transport is bound to remain as a crucial variable for foreign business and it contributes to the satisfaction levels in variables quite significantly as a direct cost.

Industrial relations

There are significant differences between the industries where Japanese MNEs are present in Australia in terms of the number of unions at workplace and the levels of unionisation (Bayari 2001a). In this survey, the level of satisfaction for industrial relations (56%) was significantly lower than that of union-management relations (75%) which suggests that while the MNEs have achieved a level of consensus with their workforce they have a strong preference for a 'less restrictive' framework for employment contracts. The *psychological contracts*, an amalgam of subjective experiences, sociologically, historically and personally, are country specific (Rousseau and Schalk 2000). Australian industrial relations have been transformed in the last two decades, since the beginning of the deregulatory economics by the Hawke government, to the detriment of union power and the historical construct of the centralised arbitration and wage fixing (Wooden 2000). Japanese industrial relations system, also with a central legal framework has been described as 'harmonious' and 'based on mutual trust' though its collective bargaining is overwhelmingly at firm level (Nakabuko 1999, Nakata 1999). Additionally Japanese labour market has a historical duality whereby large sections of employees' work in seasonal and contract work with lower wages and no benefits, in jobs are easily distinguishable by the lack of union presence (Bayari 2002). The main reason for the higher score with the satisfaction in industrial relations in Australia may lie in the perception of the employers that in the current climate further labour 'reform' appears plausibly to be within reach. The survey results indicate that the marketing and sales sector has the highest level of satisfaction (64%) followed by the manufacturing and assembly (59%) and service sectors (44%). Previous research on the Japanese subsidiaries in Australia that looked at competitive advantages found that 'industrial relations' scored 3.2 out of 4 in terms of importance for manufacturing sector and 2.7 for financial sector with

no results for the tourism sector companies that were also surveyed (Purcell et al. 1999: 75). The emphasis that is placed upon industrial relations by different sectors is common to the present and the prior study.

Australia's economic and trade links with other nations

Dunning makes a clear association between links of trade and foreign direct investment. "[T]rade and investment, far from being substitutes for each other, often go hand in hand...In trade, the final decision of what is produced and where it is produced is taken within the exporting or importing country; in international investment, decisions may be taken outside the country in which they are implemented and their effect chiefly felt" (Dunning 1988b: 205). Consequently, it is necessary to include the tradelinks of the host nation in conjunction with the foreign investment levels of the foreign company. The perception Japanese companies have of Australia has been raised previously in terms of continuity of the direct investment in relation to several factors including its business links (Sekine 1991). As discussed in the introduction, Australia has achieved a relatively 'open' economy with two decades of market deregulation and financial liberalisation that has affected its links of trade though did not do anything for the grain and resource exports.¹⁸ For foreign multinationals, tradelinks refer to the ease of doing business in Australia with homebase and third markets. *Keiretsu* system of domestic and global vertical/horizontal links between the Japanese firms is one of the organisational/ locational/internalisation advantages indigenous to Japan. In Japan's history the existence of giant manufacturing and trading firms and *keiretsu* systems positively impacted on its technology and managerial transfers.¹⁹ "Large firms and a high degree of market concentration tend to lead to a great flurry of 'improvement invention', incremental technical change centred on the adaptation or diffusion of existing technology" (Inkster 1996: 50). Australia does not have a market to match the scale of Japan's to allow the realisation of the full benefits of the incoming technology transfers. However, strong links have long been established between the components of Japanese *keiretsu* as well as among the different *keiretsu*, in their investments, in Australia (Edgington 1987: 19). This in turn assists the fuller utilisation of intra-market and inter-market links. The survey results show in Chart 2 that the marketing and sales sector firms has the highest level of satisfaction (84%) that is followed by the manufacturing and assembly sector (80%) and service sector (70%).²⁰ Marketing

and sales sector result is close to the manufacturing and assembly sector, which is possibly due to the higher volume of usage of the links by the two sectors.

Union-management relations

The literature on Japanese management and its transfer to overseas Japanese production units, in the EU, the USA and Australia, had its peak in the 1980s though it is still the most relevant school on contemporary blue collar (and to some extent white-collar) work practices. Global restructuring of the financial, manufacturing and trade links reshaped the political economy Australia and Japan the juxtaposition of which is reflected in the employee composition of the Japanese MNEs in Australia (Bayari 2001a). The surveys of the Japanese MNEs in Australia in the 1980s consistently emphasised union-management relations in which the MNE satisfaction was found to be lacking (JETRO 1989). The most disastrous example of Japanese MNEs' labour troubles in Australia in the 1980s, which is now interpreted as more of a failure to create a hybrid management structure, involved a subsidiary firm's (from the Toyota group companies) newly opened state of the art manufacturing plant in Australia that soon shut down permanently (Graen et al. 1999: 90). The research into Japanese MNEs in the early 1990s drew attention to improved management-union relations in the surveyed Japanese MNEs (Jackson 1991, Yamanaka 1991). By the late 1990s similar surveys of Japanese MNEs in Australia frequently focused on measuring the success in implanting the work practices and organisational characteristics readily identified with, though no longer exclusive to, the Japanese management school (Bayari 2001a). Successive research findings showed that the most elements of the work practices transferred from the MNEs Japan operations were operating with varying levels of success that appeared infinitely higher than the experiences of the 1980s (Purcell 1999). The responses to this question of the present survey have to be viewed in context of several management initiatives in the workplace that, in the last two decades, created procedures and processes that seemingly do not directly challenge the union authority but nevertheless function for the benefit of the accumulation process. One such process in Australia has been the management led 'responsible autonomy' mechanisms in the 1990s, which the 1995 Australian Workplace Industrial Relations Survey (AWIRS) found to be most successful in workplaces dominated by managerial and professional staff, and mostly at workplaces in non-manufacturing sectors (Harley 1998: 277). A prior study has shown that manufacturing sector placed more significance on 'work

organisation' and 'management style' as competitive advantages than the service sector (Purcell et al. 1999: 75). In Chart 2, it can be observed that the most satisfied sector on the issue of 'union-management relations' is the service sector and the least satisfied is the manufacturing and assembly (69%), with marketing and sales sector (83%) falling in between, which confirms the results of the 1995 AWIRS survey.²¹ The order of satisfaction found in the present survey in turn confirms the order of the level of unionisation in the respective sectors that was covered previously (Bayari 2001a). That is the manufacturing sector being most unionised and the service sector as the sector with the lowest levels of union membership and the least number of unions present (Bayari 2001a). In the results presented herein, this trend is expressed in mean scores across the firms that are categorised according to their year of entry to the market and staff numbers, which is presented in the Tables 2 and 3. Another point of interest is how the respondents differentiated between two variables *IR* (low satisfaction) and *UNION-MANAGEMENT* (high satisfaction). The surveyed firms are either by and large happy with the union-management relations or are less willing to report their dissatisfaction with it than they are willing to state dissatisfaction with industrial relations.

Size of the Australian market

Market size is one of the variables that about which the respondents were relatively more capable of being objective. This is naturally due to the impossibility of altering it with any strategy or plan other than choosing the mode of investment i.e. direct investment, licensing or importing. Japanese MNEs with larger stock of technological knowledge have a lower proportion of production in developing countries, but have a higher proportion in developed countries (Fukao et al. 1994: 1). However it has also been shown that Japanese foreign investment has a positive relation to the size of the market in the host country (Amano et al. 1997: 13). This highlights the disadvantage that Australia has had historically with its small market size. As a result, the size of the Australian market is the least satisfying aspect of doing business in Australia for the respondents with 85% of the Japanese firms reporting being unsatisfied (Chart 2-All Sectors Combined). The nearest low score to the variable of *MARKET* was *GST*, a recent business factor that is in a different league. Hence, the percentage of the satisfaction with *MARKET* variable was low for all the sectors with manufacturing and assembly firms coming first (17%) followed by the service sector (12%). The reason for the

satisfaction level being the highest for the manufacturing and assembly sector is the fact that these companies have been in Australia to serve the local market by producing here and having been well aware of the possible sales volumes prior to the new era of tariff lowering. The fact that the satisfaction was also low, among all other variables, for the marketing and sales firms (16%) signifies that the market size determines the volume of the goods and services marketed and sold even for the firms that do not produce locally. Hence, the costs that are associated with this activity would have been less had the market been larger.

Federal support for industry and exports

The level of satisfaction with this variable is higher than that of TARIFFS, INDUSTRIAL RELATIONS, MARKET, GST and DISTANCE for all the companies (Chart 2-All Sectors Combined). When divided among sectors there is little variance. Manufacture and assembly firms (62%) appear to be more satisfied while the 60 per cent of the marketing and sales sector firms and the 57 per cent of the companies of the service were satisfied (Chart 2). FEDERAL SUPPORT refers to the Australian government's historical reluctance to offer incentives to MNEs that has to be analysed in context of the MNE behaviour and the size of the Australian market. MNEs can have a tendency to service foreign markets from their domestic plants instead of the foreign subsidiaries (Townsend 1988: 330). Certain conditions have to be present for foreign investment to take place, as observed in MNE theories. However the market size plays a distinct and undeniable role in the MNE behaviour, as it has been determined by the numerous surveys of the Japanese MNEs in Australia (see Bayari 2001b for a summary). As per the Australian market, in the late 1950 Australia produced and exported more vehicles than Japan. Even if the economic expansion in Japan had not taken place to the extent it did, the sheer size of the Japanese domestic market would have meant that Japan would have eventually been a much larger producer and exporter than Australia. In line with the OLI equation of the Dunning's *eclectic paradigm*, Japanese MNEs entered Australia to get behind the tariff barriers, following the fdi by the MNEs from the UK and the USA (Beeson 1997, Edgington 1990, Nicholas et al 1996b). Australian government has refrained from developing comprehensive national agenda on production, as well as agriculture which is most apparent in its powerlessness to fight of agricultural produce subsidy of the USA. Agriculture and dairy have come to be considered in the framework of ecology, not as merely objective processes that feed off from

the necessity of human subsistence. Industrial production is also a process that is a determinant of the economic independence and strength of a nation. Australia's industrial production has been historically based on import of labour and capital. The latter was often obtained through the means of foreign investment from foreign MNEs which has been covered elsewhere (Bayari 2000a, Bayari 2000b, Bayari 1999). Government policy for assisting industrial production is the crux of the rapid industrialisation of the ASEAN nations such as Indonesia, Malaysia, Singapore, Thailand and the newly industrialised countries (NICs) such as South Korea and Taiwan. Government assistance for industrial has not been on the agenda for almost two decades in Australia (Beeson 1997, and Sheenan et al. 1994).

GST

The structure of the world economy has historically determined more than just the interaction of global producers, trades and investors; it also claims the authorship of social movements and governance (Polanyi 1957). Governing the economy through taxation is the last vestige of the national policymakers that are themselves ruled externally by the global financiers. GST is a new factor for all business and the consumers in Australia. Comparative effects of the introduction of goods and services tax on companies in Australia and Japan has been previously covered (Blount 2001). Goods and services tax is a significant business factor for MNEs that view it a new cost of doing business that is also expensive to administer (Personal interview 2001). This variable has the second lowest satisfaction level reported (GST 39%) after the market size (MARKET 15%) (Chart 2-All Sectors Combined). As seen in Chart 2 all sectors were dissatisfied with GST, in the order of marketing and sales (43%), manufacturing and assembly (41%) and service sector (29%) which has the least level of satisfaction indicating the effect of the new tax on the sector.

Lack of tariff protection for products

Tariff policy and federal assistance cannot be considered separately from each other as the reduction in the former increases the costs for the latter. Industry assistance encourages retooling and reinvestment among manufacturers who wish to stay competitive against imports that rise as tariffs fall. The most significant development on tariff protection for manufacturing in Australia is the incoming policy of tariff freeze for the auto industry until 2010 when there will be a drop to 5 per cent from the current 15 per cent. This has been the major preoccupation of the government on the tariff front. On the assistance side \$2 billion is injected into the sector by the federal government (Lewis 2002: 1). Such a large scale intervention highlights the importance of the 55,000 employed by the gang of four, GMH, Ford, Toyota, Mitsubishi and the hundreds of component manufacturers in the country in the \$17 billion a year industry. One of the reasons is that automobiles have become a more common consumer item in Australia. For every two people there is a car on the road today compared to for every 3.3 people in 1971 (ABS 2002). Increasing exports by Toyota, GMH and Mitsubishi are also a factor for the recent industry assistance through funds and tariff freeze (McDonald and MacFarlane 2002 2). All these draw a somewhat optimistic scenario of moving from a protected industry to an export industry after years of uncertainty and declarations from Mitsubishi of its imminent exit from the sector, following in the footsteps of Nissan. 18.5% of the sample in this survey was firms in automotive and auto-parts manufacturing. The lowering of tariffs in Australia has undercut the Japanese carmakers in Australia and the Japanese importers such as Nissan who used to manufacture in Australia. Ford and GMH now bring their models from Europe with favourable exchange rates against euro, undercutting Japanese imports and Australian produced Japanese models on price (Gotting 2003: 25). Finally, in terms of the survey results presented in CHART 2, 61 per cent of the marketing and sales firms and 39 per cent of the manufacturing and assembly firms were satisfied with the TARIFFS policy which adds up to 38 per cent when all the firms in total (Chart 2-All Sectors Combined) which puts this variable between MARKET and DISTANCE.²²

Distance between Australia and export markets

FDI is a question of net costs and benefits of overseas involvement (Hutchinson and Nicholas 1994). What are the factors that can compensate the distance of Australia from the rest of the world? Possibly none. Australia is a small market with mainly resource and land based industries, at a great distance from

everywhere that compounds the problems associated with the other factors discussed herein. It is a market with limited consumption volumes, with no apparent advantage for production of low-cost export-oriented manufacturing, with over 70 per cent of its GDP formed by service industries. The pattern of Japanese investment in Australia was set in the 1960s in such a background with fluctuating shares of service, trade and manufacturing sectors (Sekine 1991). Japanese investment in Australia has been biased against manufacturing (Hutchinson and Nicholas 1994). The reasons for this have been covered above and elsewhere (Bayari 2001a). While wage rates and industrial relations issues were reported to be low ranking factors in the initial Japanese investment, according to an earlier survey, highest ranks were given to import duties, transport costs, government policy, non-tariff barriers and energy costs (Hutchinson and Nicholas 1994: 8-9). DISTANCE variable is a component of the transport costs. In this survey's results marketing and sales firms were the most satisfied (58%), followed by service sector (50%) and manufacturing and assembly firms (23%). Elsewhere, the primary hurdles for Japanese investment in Australia were identified by the Japanese MNEs as high local taxes, lack of government incentives, small size of the market, high port and shipping costs, lack of industry policy, physical distance from export markets (EIU 1996). Psychic or the perceived distance also was mentioned (Hutchinson and Nicholas 1994; Nicholas et al 1996a) as an impediment to fdi. "Psychic distance is a disadvantage related to differences in customs, culture, legal and government system and business practice between the Japanese and Australian economies (Hutchinson and Nicholas 1994: 9). Psychic distance is also included in location specific variables in Dunning's *eclectic paradigm* (Dunning 1988a: 27). The fact that the Japanese MNEs have been operating in Australia for close to a century it may be suggested that psychic distance between the two will be relatively lessened in importance (CEDA 1997). The changes in the combination of business factors can also serve to increase the *distance*.

Conclusion

The paper has discussed ten business and economic factors that affect fdi and made several observations on the divergence and convergence between the industries on their reported satisfaction. The paper has covered previous research and developments in the discussion of each factor while presenting the present research findings. The results displayed in Chart 2-All Sectors Combined are

unlikely to be significantly different for some of the factors in a future surveys. They may also be totally irrelevant in instances where the firms with export activity may cease to exist in the near future. As discussed above it is precisely the manufacturing and assembly sector that has serious misgivings about the more crucial factors such as TARIFFS and TRANSPORT. As shown in Chart 2 there is no continuous trend among the three sectors on the reported satisfaction with the economic and business factors. Service sector has the lowest levels of satisfaction with GST, FEDSUPPORT, UNION-MANAGEMENT, TRADELINKS and INDUSTRIAL RELATIONS. Manufacturing and assembly firms, on the other hand, have the lowest levels of satisfaction with TARIFFS, DISTANCE and TRANSPORT. MARKET is where the three sectors converge in their reported low levels of satisfaction though they come close to converging on FEDSUPPORT and UNION-MANAGEMENT. The widest divergence is on SUPPORT and TRANSPORT for the three sectors. The factors analysed in this survey are not exhaustive. For example currency fluctuation would be an obvious variable that could be tested but it may not necessarily address the varying levels of objectivity offered by a combination such as the sectors and tariff policy or market size. Further, the factors that cover labour-management issues have a long history behind them and have been tested by successive surveys hence they need to be included in future research. Moreover, the issues that relate to the necessary support from the HQ of foreign companies have a great deal of relevance as the discussions of globalisation and its effects on business fill volumes. As the Japanese MNEs and their global activities remain as significant as ever, the trends that the present paper argues to have detected present a negative picture for the Australian economy in which the Japanese firms are the third biggest investors.

Acknowledgments: I would like to express my gratitude to Monbusho and Professor Mitsuru Wakabayashi of Nagoya University Graduate School of International Development, Department of International Development. During the period of 1999-2001 when I was carrying out my research at Meidai I was supported, helped and encouraged by them and many others. Professor Kyoko Tanaka of the Nagoya University Education Center for International Students was also extremely generous with her kind support. Also from GSID, I would like to thank Professor Michiko Yoshioka for all her endless help, kind assistance and advice to me that began even before I was at Nagoya, and Yuka Itai from GSID Masters program who was always most supportive and helpful during my research and translated the questionnaire into Japanese. Professor Saori Okuda of the Nagoya University School of Law provided much appreciated guidance, introductions and contacts for interviews. I would also like to thank Mr Yasunari Fukuda, Secretary-General, Japan Chamber of Commerce and Industry, Sydney, Mr Junichi Kitano, Director of Osaka Prefectural Government Office, Sydney, Mr Masaru Inoue, Managing Director of JETRO, Sydney who made possible the research survey on which this paper is based.

1 The survey data and statistical information: The data on the Japanese companies, which this paper uses, was collected throughout 2001 via mail out of a questionnaire with the assistance of Japan Chamber of Commerce and Industry, Sydney and Japan External Trade Organisation, Sydney. Sixty-five replied by fax from a total of 240 companies contacted through the membership list of Japan Chamber of Commerce and Industry, Sydney. Hence, this paper is based on the survey, which canvassed the owners/managers of the companies on ten locational factors. Survey data consists of 18 manufacturing and assembly, 27 marketing and sales and 20 service sector companies. The companies are MNEs, Japanese companies' subsidiaries and branches/representatives of Japanese firms in Australia. The survey asked them if they were satisfied with the following ten factors: 'Support from your parent company in Japan'-'SUPPORT', 'Transport in and out of Australia'-'TRANSPORT', 'Australian industrial relations'-'INDUSTRIAL R.', 'Australia's economic and trade links with other nations'-'TRADELINKS', 'Union-management relations in your company'-'UNION-MANAGEMENT', 'Size of the Australian market'-'MARKET', 'Federal support for your industry and exports'-'FEDSUPPORT', 'GST (goods and services tax)', 'Lack of tariff protection for your products'-'TARIFF' and 'Distance between Australia and your export markets'-'DISTANCE'. As the data consists of three types of companies, manufacturing and assembly sector, marketing and sales sector and service sector companies it is an exploratory data that is not tested using any statistical measurement tools and instead crosstabulation of results are provided in percentage terms. Hence the paper does not make any claims about the adequacy of the sample size for statistical testing. The data on which the arguments of the paper are based is illustrative that is too small for hypothetical testing, for example, of relationships between variables. The paper hence uses the data for illustrative purposes. The specifics of the data are provided progressively in table and chart formats in the development of the argument.

2 The interaction, between ownership advantages and several locational factors, has been covered in respect to the Japanese business in Australia with an earlier data set (Nicholas et al. 1996: 14-16).

3 Australia's top two exporters are Mitsui & Co and Mitsubishi Australia general trading companies that are also the two of the top twenty Australian companies. Based on export performance the top seven Japan trading companies in Australia are Mitsui, Mitsubishi, Itochu, Marubeni, Sumitomo, Nissho Iwai and Kanematsu. These companies exported more than one fifth of Australia's total merchandise exports in 1995, equalling A\$15.1 billion, which was more than Australia's total exports to Japan (BRW/EFIC 1997: 54). They handle the export of Australian coal, iron ore, oil and gas, nonferrous metals, wool, bricks and pavers, motor vehicle components, woodchips, salt and processed foods (BRW/EFIC 1997: 54).

4 However from early 1980s to early 1990s Japanese MNEs' new fdi rose from about 20% to nearly 30 % of the Australia's total inflow of fdi (Drysdale 1993).

3 (EAAU 1997) has 1995 data charts that break down the Japanese investment in Australia by industry which is not discussed here as comparison is not possible due to lack of current data.

6 Australian investment levels overseas were \$458.8 billion in the same period and equity has been the main form of Australian investment abroad during the past decade. Japan was the fourth major destination (\$20 billion or 4% of the total Australian investment).

7 An MNE can be either distinctly producing or trading, or both. In Australia, for example there are Japanese sogo shosha that operate in woodchipping, mining as well as agriculture, livestock, dairy, rice farming, sake brewing.

8 Percentages are rounded.

9 In manufacturing, the most direct economic benefit from Japan is often in form of technology transfer via licensing by Australian companies. (Hutchinson and Nicholas 1994: 14) Japanese manufacturing MNEs in Australia, although limited in number and size, are from high R & D sectors and spend more in Australia on R & D than non - Japanese MNEs and Australian corporations. (Nicholas et al. 1996a: 16). Previously the transfer of Japanese technology to Australia was discussed briefly by the author (Bayari 2001a) and it was stated that the US and UK MNEs transfer much higher ratio of technology via investment in Australia, even though it is not the state of the art level the Japanese MNEs offer.

10 See Footnote 1 for the definition and the individual discussion of the variables.

11 Missing responses and the responses from the companies that found the factors not relevant to their activity are excluded from all the figures in the Chart 2.

12 Variable values: (1) ='satisfied', (2) ='not applicable', (3) ='unsatisfied'.

13 1 for no importance, 2 low importance, 3 medium importance, 4 high importance (Purcell et al. 1996a: 75).

14 In the present survey service sector includes firms in banking, insurance, sogo shosha, tourism and IT.

15 Japanese MNEs are not the only ones who use fully owned subsidiaries to market and sell their products instead of distributors. For example, European carmakers use the same system in Australia to market their cars and even Ford and GMH import their models from Europe (Gotting 2003: 25).

16 TRANSPORT and TRADELINKS variables were the top three in satisfaction levels for all sectors according to the survey results. This outcome highlights the fact that the firms have high level dependency on them for their business activities with goods having to be transported and imported into Australia at competitive price, with competitive distribution links, all in the framework of HQ support.

17 Having said that it also needs to be restated that Australian economy unlike most other national economies was founded and is maintained by the import of labour and capital.

18 In the "Openness to Foreign Influences Rating" Australia is in the fourth place after Taiwan, Philippines, Hong Kong. The rest are Singapore, USA, Thailand, China, and UK. Germany. Indonesia. Malaysia. France, Japan and South Korea (WEF 2000).

19 Keiretsu networks can also work to the benefit of foreign investors. In 1999 when Renault took a 37 per cent in Nissan it gave the European firm access to Nissan's Asia Pacific network, when coupled with the rise in yen, has allowed Renault to boost sales (Gotting 2003: 25).

20 Interestingly a previous survey suggested that service (financial) sector firms placed higher importance on the firm being a part of the world-wide operations than the manufacturing firms with tourism firms having placed the least importance on the variable (Purcell et al. 1999: 75).

21 The number of responses from the service sector firms was too small. As only the 'satisfied' and 'unsatisfied' responses were considered the level of satisfaction appears high.

22 The number of responses from the service sector firms was too small. As only the 'satisfied' and 'unsatisfied' responses were considered the level of satisfaction appears low.

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Citation:

Bayari, Celal (2004) 'Japanese Business in Australia: A Management Survey of Industry Interaction with Locational Factors'. *The Otemon Journal of Australian Studies*. 30: 119-149. 2004. ISSN 0385-3446.