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Chapter 1

Japan-Taiwan Joint Ventures in China: Why Have Japanese Companies Been Using "Trinational International Joint Ventures" Which Have Been Regarded as the Most "Unstable"?

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Abstract An increase can be seen in cases of Japanese investments in China, conducted together with Taiwanese companies and Japanese affiliates in Taiwan, since the end of the 1980s. Most of the cases are JVs (joint ventures) in China between Japanese and Taiwanese firms. However, a previous paper has suggested that performance of trinational international JVs (IJVs), which are JVs with third-country based firms, is the lowest among all types of JVs. The reasons attributed are that this type of JV format lacks local access through a local partner and requires higher organizational costs. Here arises a question: Why have more than a few Japanese companies been setting up JVs in China with Taiwanese firms?

This paper preliminarily shows that the termination rate of Japan-Taiwan JVs in China is not high compared to average termination rate for overall Japanese investments in China. In terms of local access, JVs with Taiwanese companies improve local access for Japanese partners by making it easier (i) to access Taiwanese affiliates with a large economic presence in China, (ii) to smooth entry to the local market by utilizing distribution networks that Taiwanese parties possess in China, and (iii) to get local information from Taiwanese partners whose language and culture are similar to those of China. In addition, it is suggested that organizational costs are generally decreased because of the mutual trust built by the long history of collaboration between Japanese and Taiwanese partners. Finally, the theoretical implications and several remaining points are mentioned with reference to current developments in JVs between Japanese and Taiwanese companies in China.

Keywords Foreign direct investment, Joint venture, Trust, Ownership structure, Cross-Strait economic relations, Japan.

Introduction

Since the 1950s, Japan and Taiwan have been building a close economic relationship. Based on the complementarities of the factors of production, trade between the two economics has been increasing based on vertical specialization. At the same time, many Japanese companies have selected Taiwan as the host of their foreign direct investment (FDI), setting up their affiliates there for production of labor-intensive goods.

Since the end of the 1980s, however, there have been large structural changes observed in Japan-Taiwan economic relations. First, economic relations between the two economies have been shifting from vertical specialization to more horizontal specialization at a high speed. Acceleration in the upgrading of the structure of Taiwanese goods exported to Japan has especially been witnessed, and a faster shift from inter-industry trade to intra-industry trade is also attendant (Ito 2001).

Another structural change which is worth pointing out is that strategic alliances between Japanese and Taiwanese companies, which had always been constrained geographically in Taiwan, have started to extend to other countries in Asia, along with the increase of FDI in ASEAN countries and mainland China by both Japanese and Taiwanese firms, in response to rising pay pressures, appreciation of the currencies of these Asian countries and rapid growth of their domestic markets.

The typical case of the latter structural change is a sharp increase of Japanese companies investing in China through joint ventures (JVs) with Taiwanese companies. However, previous papers have suggested that JVs between third-country based companies are both the least profitable and the most unstable among all types of JVs. Why have many Japanese firms been using this form of JV for investing into China when it is regarded as the least desirable?

This paper will address this puzzle. First, I will review existing literature on the relationship between JVs' ownership structure and their performance. Second, I will overview Japanese companies' JVs in China with Taiwanese partners and examine the survival rate of this type of JVs as a parameter of their performance. Third, based on observation, this type of JV in China has various benefits, including easier local access and decreased cost in interfirm collaboration, which have been neglected by previous studies because of over-simplified typology which placed all JVs between third-country based partners in the same category. Finally, I will mention the theoretical implications and further improvements for empirical studies in terms of the relationship between JVs' ownership structure and their performance, taking into account current developments of Japanese-Taiwanese JVs in China.

Review of previous literature on JVs' ownership-performance relationship

The problem of what factors determine IJVs' performance has been one of the hot issues in academic literature. According to Larimo (2003)'s comprehensive review of earlier empirical studies on this problem, a great number of variables have been employed as measures to evaluate JVs' performance and its determinants. While an evaluation of IJV's performance can be directed either at the performance of the operation itself or toward the performance of the partners, the latter has rarely been used as a proxy of performance. Measures of the former can be classified into (1) objective measures (including longevity, survival, stability, profitability, and market share, etc.) and (2) subjective measures (various related items accessed by stakeholders). As for determinant factors on JVs' performance, Larimo (2003) picked out 14 variables which were included in at least 6 previous papers out of the 77 empirical studies on this issue: (1) cultural distance, (2) age of the IJV, (3) dominant partner ownership, (4) size of the IJV, (5) foreign parent control, (6) related business IJV, (7) inter-partner conflict, (8) commitment to the IJV, (9) relatedness of partners' industries, (10) size of the foreign partner, (11) dominant parent control, (12) existence of R&D operations, (13) earlier collaboration between partners, and (14) size asymmetry.

Among these variables, "(3) dominant partner ownership" is the one directly related to the ownership structure of IJV concerned with the central issue of this paper. Killing (1983) has argued that the dominance of one investing party will increase stability and profitability because a lower cost of coordination among partners can be expected. To the contrary, some have argued that dominant partner ownership will dampen other parties' commitment to the IJV and lead to poorer performance and shorter life of the IJV (Beamish 1985; Blodgett 1992). However, its relationship to performance still remains controversial, as results of prior empirical studies are mixed (Larimo 2003).

Against this controversy over the relationship between IJV's performance and equity share, Makino and Beamish (1998) have stressed the relative importance of "partner affiliation" and "partner nationality" of IJVs in addressing the problem of the relationship between their performance and ownership structure. This noble literature pointed out that a problem lies in the fact that almost all previous literature assumed that IJVs are of the two-partner form (i.e., one local and one foreign partner) despite the fact that various types of IJVs have emerged in terms of both number of partners and partners' affiliation/nationality. Makino and Beamish (1998) sampled Japanese manufacturing JVs located in East and Southeast Asian countries during the 1986-1991 period and categorized the ownership structure of IJVs according to criteria of affiliation and nationality of the largest partner or group from the perspective of the Japanese parent company. "Partner affiliation" is defined in terms of whether the IJV's equity is related between JV partners. "Partner nationality" involves the country-of-origin (i.e, home-, host-, or third-country based). Using these criteria, Makino and Beamish (1998) classified ownership structure into four types: (1) Intrafirm JV; (2) Cross-national domestic JV (DJV); (3) Traditional IJV; and (4) Trinational IJV (**Table 1**).

Prior to conducting an empirical study, Makino and Beamish (1998) constructed hypotheses on the relationships between the four types of ownership structures and performance/stability, which were based on local access (e.g., to market and information, etc.) through partners and cultural distance between investing parties at national and corporate levels.

Table 1: JV Ownership Structure and Hypotheses on Expected Performance and Survival Llikelihood

	Intrafirm JV	Cross-national DJV	Traditional IJV	Trinational IJV
Partner affiliation	Affiliated	Unaffiliated	Unaffiliated	Unaffiliated
Partner nationality	Home	Home	Host	Third
Local access through partners	No	No	Yes	No
National cultural distance	Low	Low	High	High
Corporate cultural distance	Low	High	High	High
Expected level of performance	High	Medium	High	Low
Expected level of survival likelihood	High	Medium	Low	Low

Source: Makino and Beamish (1998).

The results of the empirical study supported their hypotheses. The findings are as follows: (1) Traditional IJVs provided the greatest opportunity to achieve superior performance, even though they had the second highest chance of termination after Trinational IJVs; (2) Intrafrim JVs provided the second highest opportunity to attain superior performance, and had a lower likelihood of termination than either Traditional or Trinational IJVs; (3) Cross-national DJVs provided a lower opportunity, compared to Traditional IJVs and Intrafirm JVs, for attaining superior performance, yet had the lowest likelihood of termination; and (4) Trinational IJVs provided the fewest opportunities for attaining superior performance and had the highest likelihood of termination.

Survival rate of Japan-Taiwan JVs in China

Whereas the prior literature has shown that the performance and survival likelihood of Trinational IJVs is inferior to those of any other types of JVs, Japan-Taiwan JVs in China, which fall in the category of Trinational IJV, have been increasing. There have been found *at least* 186 cases of Japan-Taiwan JVs in China from 1990 to the end of 2005, which have met the following criteria:

(i) The Japanese parent company directly holds 10 percent or more of equity of the Chinese affiliate;

(ii) When the Japanese parent company indirectly possesses 10 percent or more of the equity of the Chinese affiliate and the indirect investment is made through Japanese investment companies set up in some countries or regions which have the characteristics of a tax-haven or regional headquarters (i.e., Hong Kong, Singapore, the British Virgin Islands, British Cayman Island, Samoa etc.), the indirect investment is regarded as a case satisfying criterion (i);

(iii) The major partner that is defined as the partner with the largest equity share of the Chinese affiliate among the partners is a Taiwanese company that is not affiliated by the Japanese parent company and whose equity share is more than 10 percent[1].

As there are no comprehensive and accurate statistics about Japan-Taiwan JVs, this paper collected cases from (i) the *Kaigai Shinshutsu Kigyo Soran* (*Directory of Japanese Overseas Investment*) published by Toyo Keizai, Inc., (ii) the directory of investment in China by Taiwanese corporations listed on the main board and over-the-counter market issued by the Investment Commission of the Ministry of Economic Affairs in Taiwan, (iii) information of *Business Groups in Taiwan* complied by China Credit Information Service, Ltd., (iv) internet websites and press releases of corporate enterprises, and (v) interviews[2].

To calculate the survival rate of Japan-Taiwan JVs in China, we set the criteria for survival as follows: (i) if the case is listed on the latest 2006 version of the *Kaigai Shinshutsu Kigo Soran*, the latest annual reports of Japanese and/or Taiwanese investing parties, and other source materials, and when the ownership structure of the Chinese affiliate meets the criteria set above, the case is regarded as still alive, (ii) interviews were also conducted to judge whether the cases are surviving or not, and (iii)if no information about the ownership structure is available, a Chinese affiliate whose name has never been changed from its establishment to the end of 2006 is deemed to be surviving, as substantial change of ownership structure is often associated with renaming of the affiliate.

Table 2 displays survival/termination rates of Japan-Taiwan JVs in China by date of establishment. The survival rate of the total cases of Japan-Taiwan JVs in China from 1990 to the end of 2005 is 88.2 percent. However, it is reasonably supposed that, the earlier JVs were set up, the higher will the termination rate of the JVs. To avoid this problem, survival rates by period of foundation were also calculated. The rate of Japan-Taiwan JVs founded in the 1990s is 78 percent, while that of such JVs established from 2000 to 2005 is 88.2 percent.

To compare survival rates of Japan-Taiwan JVs in China to those of other formats of Japanese affiliates in China, we utilized the statistics provided by *Kaigai Shinshutsu Kigo Soran* as a parameter. This directory not complete, but it widely covers Japanese affiliates in China and is the only material with statistics on their survival rates. A Japanese affiliate is defined in the directory as an affiliate with 10 percent or more of its equity possessed by a Japanese parent company directly or indirectly as of the end of November 2005. Therefore, the directory lists both JVs and wholly-owned subsidiaries that meet the criterion. The publication provides two statistics, namely "listed-based" and "accumulated-based" cases of Japanese affiliates in foreign countries. The former counts the number of Japanese affiliates whose survival was confirmed by Toyo Keizai, Inc. The latter contains (i) terminated cases, (ii) merged cases, (iii) cases that still exist but have already stopped operation, and (iv) cases whose survival was not confirmed, in addition to (v)surviving cases (i.e., "listed-based cases").

The survival rate is roughly calculated by dividing number of "listed-based" cases by that of "accumulated-based" cases.

From Makino & Beamish (1998)'s assumption about the relationship between ownership structure and performance, it is presumably derived that the survival rate of the wholly-owned enterprises may be higher than that of Intrafirm JVs, because in the former cases there are no organizational costs required to cooperate with other investing parties. Therefore, the survival rate of wholly-owned Japanese affiliates in China may be higher than that of Japanese JVs in China.

Table 2: Survival/Termination Rates of Japan-Taiwan JVs in China

(Cases, %)

Industrial Sector	1990-1999			2000-2005			Total		
	S	T	ST	S	T	ST	S	T	ST
Manufacturing	39	11	50	121	11	132	160	22	182
Electrical and electronic appliances	5	2	7	20	3	23	25	5	30
Chemical	4	3	7	27	0	27	31	3	34
Automobiles and auto parts	3	1	4	24	1	25	27	2	29
Machinery	5	3	8	12	2	14	17	5	22
Food and beverages	6	0	6	12	0	12	18	0	18
Metal products	2	0	2	11	1	12	13	1	14
Textiles	4	1	5	2	0	2	6	1	7
Rubber and leather products	3	1	4	2	0	2	5	1	6
Others	7	0	7	11	4	15	18	4	22
Services	0	0	0	4	0	4	4	0	4
Total	39	11	50	125	11	136	164	22	186
Survival/termination rates	78.0	22.0	100.0	91.9	8.1	100.0	88.2	11.8	100.0

Note: "S," "T," and "ST" respectively represent surviving cases, terminated cases and the subtotal of the both cases. The definition of Japan-Taiwan JVs in China, source materials, and calculation methods of survival/termination rates are described in the text.

The survival rate of all the Japanese affiliates in China listed in the 2006 issue of *Kaigai Shinshutsu Kigo Soran* is 79.8 percent, which is lower than that of Japan-Taiwan JVs in China. The survival rate of all the Japanese affiliates in China established up to the end of the 1999 is 68.4 percent. This figure is also lower than that of Japan-Taiwan JVs in China set up in the same period[3].

These preliminary outcomes suggest that the longevity of Japan-Taiwan JVs in China is not necessarily inferior to that of other types of Japanese investments in China in terms of ownership structure. However, it must be noted that this finding is provisional. Other possible sample biases arising from differences in industrial structure and size of the parent, partner and the affiliate, etc., should be scrutinized in a strict manner, although related statistics are not easily acquired from the presently available source materials.

Hypotheses

Although provisional, the outcome implies that the traditional assumptions about inherent low performance of Trinational IJVs are simply not applicable to Japan-Taiwan JVs in China. As mentioned before, it has been generally presumed that the format of such JVs lacks local access and confronts organizational costs stemming from large cultural gaps between investing parties. However, the higher survival rate of Chinese affiliates jointly established by Japanese and Taiwanese companies suggests that these types of investments may have some mechanisms enabling them to overcome the aforementioned obstacles.

First, we should reconsider accessibility to the local market, information and other managerial resources in the context of Japan-Taiwan JVs in China.

As Hymer (1976) stressed, a firm making FDI must have, or at least recognize possessing sufficient managerial resources to overcome various disadvantages arising from differences in language, culture, business/economic environment, political and judicial systems and so on. The owner-specific advantage conceptualized in Dunning (1988, 1993)'s eclectic paradigm also regards superiority of managerial resources as one of the requisites for FDI. From the resource-based approach, JV can be interpreted as an attempt to supplement one's own managerial resources by utilizing those of other companies, making it easier to surmount obstacles in the host country.

According to my literature review, there is only one paper, i.e., Sato (1997), directly and comprehensively investigating motives of, and division of labor in, the operation of Japan-Taiwan JVs in China from the perspective of complementarities in managerial resources between Japanese and Taiwanese investing parties. The antecedent literature with relatively wide-ranging samples has sketched out features in complementarities of managerial resources as follows:

(i) Japanese parties tend to play more important roles in providing capital, raw materials, technologies, and distribution channels for subsidiaries dominated by Taiwanese counterparts;

(ii) In the cases of Japan-Taiwan JVs in which Japanese companies hold a majority, Taiwanese firms give some support in terms of know-how concerning doing business in China and distribution channels, etc., but the question of whether this type of separation of responsibilities can be generalized must await more detailed study;

(iii) Few Japanese companies regard similarity of language and culture across the Taiwan Strait as the reason why they selected JVs with Taiwanese companies.

Other academic papers concerning Japan-Taiwan JVs in China are not comprehensive, but rather take the approach of case studies. One of the notable pieces of literature is Matsushima (2003) which researches the division of labor in the JV jointly set up by Kashima Electronics Inc. (Japanese) and Asia Optical Co., Inc. (Taiwanese). The literature has shown that the former provides key technologies and the latter supplies know-how about operation and management skills in China. At the same time, the paper suggests that the success of Kashima Electronics' subsidiary in China partly depends on industrial clusters in Guangdong Province, which make it easier for the Japanese company to outsource flexibly and to find other customers. In this case, the benefit does not directly arise from being a JV with a Taiwanese company because the trustee is a Hong Kong company's affiliate and the customers are Japanese subsidiaries in the province. However, given that there are many industrial clusters mainly involving Taiwanese affiliates in China, this finding may imply that Japan-Taiwan JVs in China help Japanese parties to access those clusters through Taiwanese partners.

These prior studies implied that Taiwanese companies play important roles as providers of distribution and procurement networks as well as management skills in China and enable Japanese parties to more smoothly access local managerial resources, although Sato (1997) reserves judgment on whether this finding could be generalized. This reservation might be influenced by the time when the paper was written, which was in the earlier stages of development of Japan-Taiwan JVs in China. Given the fact that Taiwanese companies' presence in the Chinese economy has remarkably enlarged, it is no wonder that the value of utilizing various managerial resources accumulated in China by Taiwanese companies might have increased. In addition, linguistic and cultural similarities across the Strait might contribute to improved accessibility and understanding of local information, although Sato (1997) has indicated that linguistic and cultural similarities across the Strait were not a major reason for Japanese parties to select Taiwanese companies as a co-investors in China.

Hypothesis 1: Accessibility to local markets, information and other managerial resources in the case of Japan-Taiwan JVs in China is not as low as assumed in the literature about Trinational IJVs because Taiwanese companies play important roles as liaisons to access these local resources, based on their linguistic and cultural similarities to China, and on their large economic presence and managerial resources accumulated by active investments in the country.

Secondly, the low termination rate of Japan-Taiwan JVs in China suggests that some factors lower the organizational costs of collaboration between the two parties belonging to different cultures at both the national and corporate levels. The previous papers focusing on transaction cost associated with strategic alliances have indicated that mutual trust is one of the most valuable firm-specific assets that decrease transaction costs associated with strategic alliances, including JVs (Barney & Hansen 1994; Gulati 1995; Das & Teng 1998; Holm *et al.* 1999; Lorenzoni and Lapparini 1999; Blois 1999, etc.). The low termination rate of Japan-Taiwan JVs in China may be attributed to interfirm trust despite their cultural gap, given the fact that Japan and Taiwan have a long history of close economic relations. Here we will regard repeated alliances as a proxy of the existence of interfirm trust, based on Gulati (1995)'s finding that interfirm trust is likely to emerge from repeated alliances between the same partners.

Hypothesis 2: Japan-Taiwan JVs in China tend to be established between investing parties with a history of repeated alliances.

Easier access to Taiwanese affiliates with a large economic presence in China

Surveys on motives for and benefits of Japan-Taiwan JVs in China from the perspective of Japanese parties and on division of labor in the operation of the affiliates may serve to illustrate the actual meaning of "local access" in the context of the format of investment in China.

According to a questionnaire survey jointly conducted by the Department of Investment Services of Ministry of Economic Affairs and the Taiwan Branch of

Nomura Research Institute Co., Ltd., the most significant motive of Japanese companies for strategic alliances with Taiwanese companies in the context of doing business in China – including JVs – is easier access to Taiwanese affiliates in China (**Table 3**).

These merits derive from the large economic presence of Taiwanese companies in China, because easier access to Taiwanese affiliates in the country would be worthless if they were inactive in business.

Table 3: Possible Merits of Strategic Alliances with Taiwanese Companies for Doing Business in China

Fields	Respondents	%
Communication with Taiwanese affiliates in China	40	62.5
Personnel management and training of Chinese staff	39	60.9
Communication with officials of local governments in China	27	42.2
Others	2	3.1

Note: Respondents are Japanese affiliates in Taiwan which are now considering strategic alliances with Taiwanese companies for doing business in China (64 valid responses, multiple responses possible, research period: September 2005).

Source: Department of Investment Services, Ministry of Economic Affairs and the Taiwan Branch of Nomura Research Institute, Ltd. (2005), p.21.

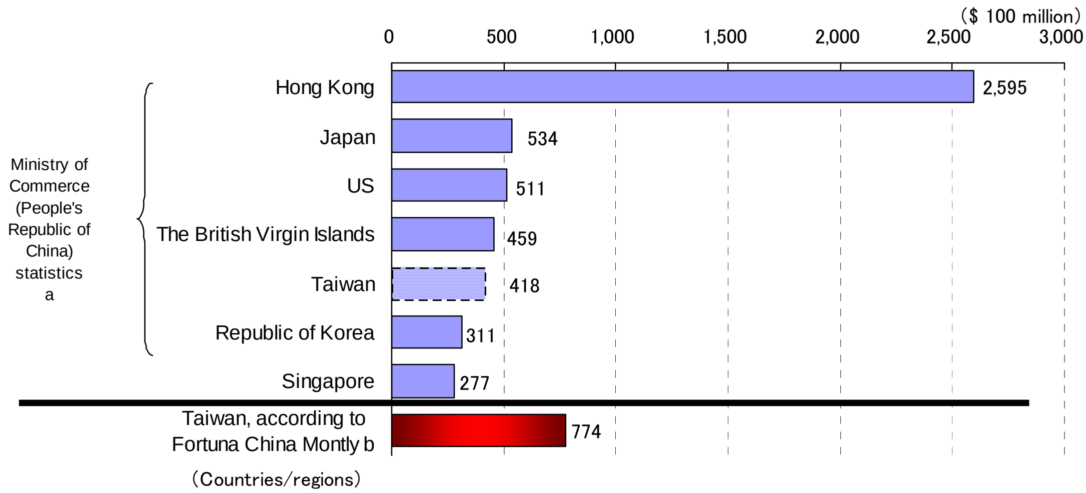
Actually, the volume of China-bound investment by Taiwanese companies indicates the scope of their presence. According to statistics on inward foreign direct investment compiled by China's Ministry of Commerce, the amount of direct investment from Taiwan (on an actually-used basis) totaled $41.8 billion as of the end of 2005, coming in at fifth place after Hong Kong, Japan, the U.S. and the British Virgin Islands (**Chart 1**). These statistics, however, underestimate the actual volume of investment in China by Taiwanese firms.

As yet, there are no investment protection agreements across the Taiwan Strait, given the ongoing political tensions regarding the unification or independence of Taiwan. Taking this into consideration, up until July 2002, the Taiwanese government required Taiwanese corporations – as a general rule – to channel their investments into China via third countries and regions. Taiwanese companies have opted thus far to invest in China through third countries and regions such as the British Virgin Islands, Hong Kong, British Cayman Island and Singapore. Given the foregoing situation, the

Ministry of Commerce statistics do not provide a full account of investment in China by Taiwanese corporations through third countries and regions.

To supplement the statistical omissions, we have resorted to data and source material provided by Taiwanese corporate associations and Chinese government agencies such as the Taiwan Affairs Office. According to the publication Fortuna China Monthly which compiles the foregoing information, China-bound investment (on an actually-used basis) by Taiwanese corporations totaled $77.4 billion as of the end of June 2003 (**Chart 1**). This amount is second only to Hong Kong and surpasses by far the amount of investment by Japan and the US, even in comparison with those countries/regions' figures as of the end of 2005.

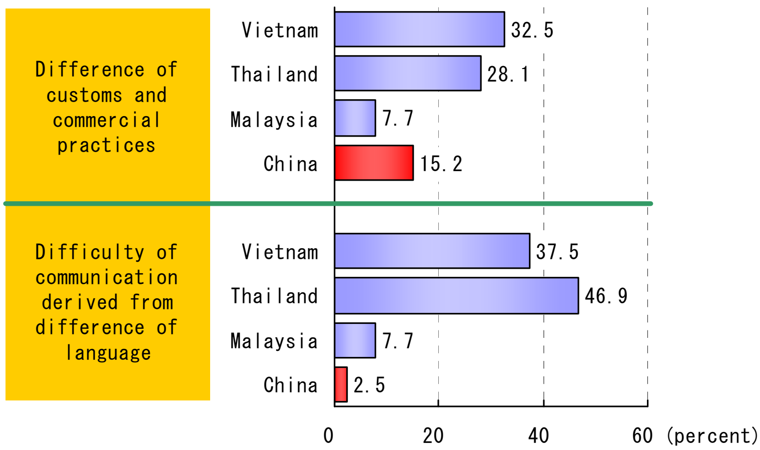
Chart 1: Inward Foreign Direct Investment of China (actually-used basis)



Notes: a. The cumulative total as of the end of 2005.
b. The cumulative total as of the end of June 2003.
Source: Ministry of Commerce, *Fortuna China Monthly*.

The active investments in China by Taiwanese companies have been facilitated partly by linguistic and cultural similarities across the Strait. Questionnaires sent from Taiwan's Department of Statistics, Ministry of Economic Affairs, to Taiwanese manufacturing firms found only 15.2 percent of respondents regard differences in customs and commercial practices as a problem of doing business in China (**Chart 2**). The share of respondents who regard China as their main host country for investment was larger than those who regard Malaysia as their most important place for investment (7.7 percent), but smaller compared with those of respondents whose business are mainly done in other developing Asian countries such as Vietnam (32.5 percent) and Thailand (28.1 percent). Furthermore, only 2.5 percent of respondents said that communication difficulties derived from language differences are an obstacle to business success in China. The attractiveness of China as a location for Taiwanese firms' investment may be outstanding in comparison with other Asian developing countries whose official languages are not English, i.e. Thailand (46.9 percent) and Vietnam (37.5 percent).

Chart 2: Difficulties Taiwanese Companies Confront in Doing Business in Developing Asian Countries



Note: The share of respondents indicated regard the issue indicated as a difficulty of doing business in each host country. Respondents are Taiwanese manufacturing corporations who are responding with regard to their main host country for investment. Numbers of respondents are as follow: 40 in Vietnam; 32 in Thailand; 26 in Malaysia and 1,253 in China. Questionnaires were distributed April 11, 2005.
Source: Department of Statistics, Ministry of Economic Affairs (2005), pp.162-163.

Flood of Taiwanese companies' investments across the Taiwan Strait resulted in a large percentage of them being included in China's industrial production and exports.

The percentage of Hong Kong, Taiwanese and Macanese corporations in the value of China's gross industrial production is 11.8 percent as of 2004. Since the industrial sector constitutes a larger proportion of the economy in Taiwan than in Hong Kong and Macao, which in turn affects the composition of China-bound investments, we are reasonably inclined to believe that the percentage of Taiwanese corporations in China's gross industrial production is slightly below 10 percent.

Taiwanese corporations especially pose a formidable presence among China's IT appliance manufacturers. Taiwanese manufacturers of IT appliances have shifted their production sites to China, raising the percentage of production in China from 22.8 percent in 1997 to 63.3 percent in 2003, surpassing the percentage of output in Taiwan (20.9 percent as of 2003). In 2003, the amount of production in China by Taiwanese IT appliance manufacturers reached $36 billion. In the same year, the amount of IT appliances manufactured in China totaled $49.1 billion; however, this figure is not strictly comparable to the foregoing, meaning that 79.1 percent of this sum was manufactured by Taiwanese IT appliance manufacturers[4].

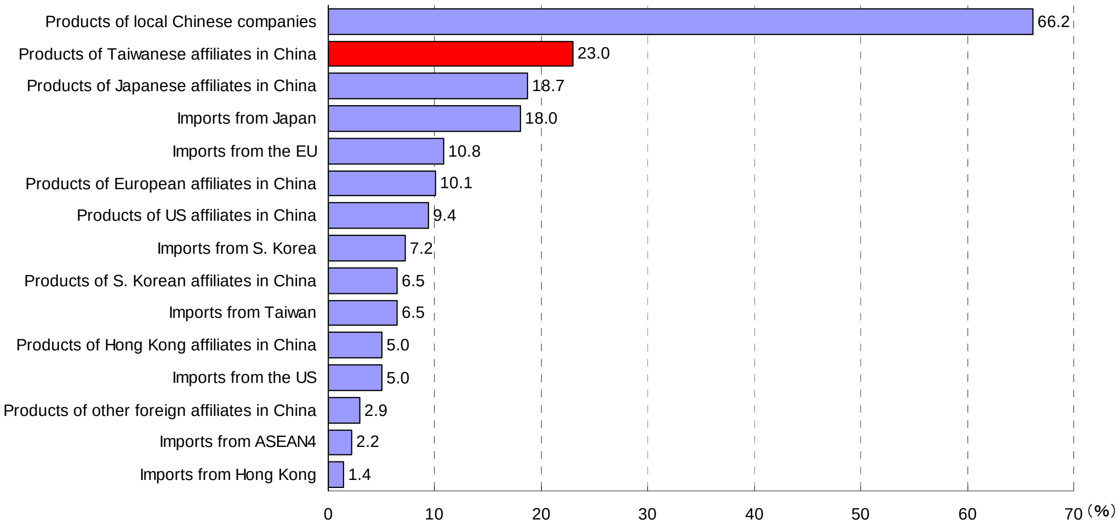
Taiwanese corporations in China also produce a large proportion of China's total exports. In a list of the top 200 foreign exporters in the year 2005 released by China's Ministry of Commerce, there are 44 Taiwanese companies, and the top two positions are held by Hong Fu Jin Precision Industry and Tech Front (Shanghai) Computer. The total amount of exports by the 44 firms reached $78.4 billion, accounting for 10.3 percent. Adding the amount of exports by the other 37 Taiwanese affiliates in China whose values of exports are made public by the Ministry of Commerce, the share of exports by the 81 Taiwanese subsidiaries reached 11.6 percent.

The presence of Taiwanese corporations in China is in fact strongly felt among Japanese corporate affiliates in China (**Chart 3**). According to a questionnaire survey on the major competitors of Japanese affiliates in China, 66.2 percent of respondents said products made by local Chinese companies held the largest share in the Chinese market. However, products of Taiwanese affiliates in China, in the second place, were regarded by 23.0 percent of the Japanese subsidiaries in China responding to the survey as the most dominant presence in the market. Products of Japanese affiliates in China were ranked in the third place (18.7%), behind manufactured goods of Taiwanese subsidiaries in China. The results eloquently show that Japanese companies hold Taiwanese corporations in high esteem for their large presence in the Chinese domestic market.

Therefore, Japanese companies using Japan-Taiwan JVs as an entry mode into China have been expecting Taiwanese partners to play the role of liaisons to the large market of Taiwanese affiliates in the country. Cases of JVs set up with this motive include that by Dai-ichi Kogyo Seiyaku Co., Ltd., its affiliates in Taiwan, and Lidye Co., Ltd., for production and sales of resist materials for PCs, Chang Chun TOK (Changshu) Co., Ltd., which was set up by Tokyo Ohka Kogyo Co., Ltd., and the

Chang Chun Group in 2004 for production and sales of high-purity chemical agents used mainly in photolithography processes in the fields of semiconductors and flat panel displays, and Musashi Paint (Kunshan) Co., Ltd., founded by Musashi Paint Company Co., Ltd., and Great Century Paints Co., Ltd., for production and sales of coating used for electric appliances, etc.

Chart 3: Results of Questionnaire Survey on Major Competitors of Japanese Affiliates in China



Notes: The questionnaire surveys Japanese affiliates in the municipality of Shanghai and neighboring cities (valid responses: 183 companies).

The respondents are limited to those companies whose products do not have a dominant market share in the Chinese market (valid responses: 139 companies).

Time period of survey: June 2002.

Source: Japan External Trade Organization, Economic Information Department (2002b), p. 23.

The format of the investment makes it easier for Japanese companies not only to access Japanese customers but also to access Taiwanese affiliates in China. The multiple distribution channels contribute to improved productivity of Chinese subsidiaries, because they are reasonably anticipated to achieve a bigger scale of economy, compared with independent investment in China by Japanese parent companies. At the same time, Japan-Taiwan JVs in China enable Japanese companies to diversify the risk arising from single and heavy dependence on a few of clients in China. An illustrative case is the JV between Tomoku Co., Ltd., Mitsubishi Corporation and the Cheng Loong Group, which started operation in 2002 and is a typical cases of combining the distribution channels that each party possesses. Other include Hitachi Electronic Devices (Wujiang) Co., Ltd., founded by the Hitachi Group and an Audix Group's affiliate in China in 2002 for production and sales of CCFLs, Wuxi Risho Technology Co., Ltd., established by Tokai Rika Co., Ltd., and Hsin Chong Group in 2001 for production and sales of automotive seat belts, and Guangzhou GRG Lamko Mold Manufacturing Co., Ltd., set up by Nagase & Co., Ltd., Tatematsu Mold Industry and Kai Ming Industry Co., Ltd., in 2005 for production and sales of automotive dies[5].

Advantages in cultivating China's domestic market by utilizing Taiwanese companies' distribution networks

Second, there are many cases in which Japanese companies utilize the human resources of Taiwanese partners and their distribution networks in cultivating markets of local consumers and companies.

Actually, amid the growing magnetism of China's domestic market backed by the country's ongoing strong economic growth, a considerable number of Japanese corporations are choosing JV partners from among Taiwanese companies that possess wide distribution networks in China and have a proven record in the cultivation of markets of domestic consumers and companies. In comparison to the independent development of distribution routes, this provides a far more cost- and time-efficient method and a quicker path to permeate the Chinese market. This is because firm-specific assets like distribution channels and know-how for marketing do not require marginal costs in coping and sharing them (Hennart 1988).

The typical examples are Japan-Taiwan JVs in the food and beverage sector. The Tignsin Group and the Uni-President Group – both of which are frequent joint venture partners with Japanese firms – spread rapidly into various businesses centering around the foodstuff business, building a nationwide distribution network in China subsequent to their entry into the Chinese market around the 1990s.

As of the end of 2005, Tingyi – the Tingsin Group's core company – had a distribution network of 361 business establishments, 4,656 wholesale bases and 66,085 direct retailers in China[6]. Tingyi holds the largest market share of instant Chinese noodles (36.9%) and PET tea (51.0%) in China in terms of sales volume, as of 2005. The company's share of fruit juices and sandwich crackers in the market is also ranked the second. In addition to the foodstuff and beverage businesses, the Taiwanese group has restaurants (i.e. Dicos), etc.

The Uni-President Group also has investment in more than 50 Chinese affiliates, covering a wide range of businesses including food, retail (Carrefour, President Drug Store) and coffee shops (Starbucks Coffee); its total amount of investment in China reached approximately $2.6 billion. This group also possesses a far-reaching distribution network for food and beverage businesses as a result of its establishment of 37 branch offices, 95 sales offices and 163 sales support units in China and deployment of a sales promotion unit of 6,557 members[7].

To utilize their distribution networks, many Japanese companies have selected these Taiwanese groups as partners for joint ventures in China. **Table 4** lists examples of Japanese JVs with Taiwanese groups in food and beverage sector. In addition, the Tingsin Group has many JVs in sectors such as restaurants (partner: Itochu Corp.), convenience stores (partners: Itochu Corp., FamilyMart Co., Ltd., and their subsidiary in Taiwan) and logistics companies mainly dealing with daily necessity goods (partner: Itochu Corp.). The Uni-President Group also has set up two tinworks with the JFE Group and two Japanese trading companies in China. There can be found other cases of subsidiaries jointly established by Japanese and Taiwanese food companies. For example, Iwatsuka Confectionary Co., Ltd. – one of the top three Japanese rice cracker makers – jointly set up a Chinese factory for manufacturing rice powder with the Want-Want Group which holds the largest share of the rice cracker market in Taiwan and China. Izumi-Seika Co., Ltd., and Mitsui & Co., Ltd., also selected a Taiwanese group as a partner for their Chinese factory to produce potato chips, popcorn and so on. The Dachan Greatwall Group also succeeded in attracting Japanese investors and founded a Chinese subsidiary manufacturing premixed wheat flours with Showa Sangyo Co., Ltd., and a Chinese subsidiary of Nichimen Corp. (present Sojitz Corp.).

In general, Japanese joint ventures in China with Taiwanese trading companies have the same aim of smoother penetration into China's domestic market through use of the distribution webs that Taiwanese trading companies possess in China. Some Japanese manufacturers also are utilizing the firm-specific resources provided by Taiwanese companies belonging to related industrial sectors in China through Japan-Taiwan JVs in China, i.e. engine compressors for construction equipment (the JV between Hokuetsu Industries Co., Ltd., and The Fu Sheng Group), office automation equipment (the JV between Uchida Yoko Co., Ltd., and Ability Enterprise Co., Ltd.), air grinders (the JV between UHT Corp. and Largetech Co., Ltd.).

Table 4: Major Cases of Japanese Joint Ventures with the Tingsin Group and the Uni-President Group in China (only in food and beverage sector)

Taiwanese partners	Chinese affiliates	Japanese partners	Main business
The Uni-President Group	Zhangjiagang President Nisshin Food Corp. ［Founded: 1996］	The Nisshin OilliO Group; Mitsubishi Corp.	Production and sales of margarines, shortenings and processed oils and fats.
	Zhuhai Kirin President Brewery Co., Ltd. ［Founded: 1996］	Kirin Brewery Co., Ltd.	Production and sales of beer.
	Kunshan President Kikkoman Biotechnology, Ltd. ［Founded: 2000］	Kikkoman Corp.	Production and sales of soy sauces, etc.
	San Tong Wanfu (Qingdao) Food Co., Ltd. ［Operation: 2003］	Mitsui & Co., Ltd.; Dai-ichi Broiler Co., Ltd.*	Production, processing and sales of broilers.
	Beijing President Kirin Beverage Co., Ltd. ［Founded: 2004］	Kirin Beverage Co., Ltd.	Production and sales of Kirin's beverages.
	Jinmailang Drink (Beijing) Co., Ltd. ［Founded: 2006］	Nissin Food Products Co., Ltd.	Production and sales of beverages in PET bottles.
The Tingsin Group	Tingy (Cayman Islands) Holding Corporation ［Equity participation: 1999］	Sanyo Foods Co., Ltd.	Production and sales of instant noodles, snacks and beverages.
	Tianjin Yoshi-yoshi Food Co., Ltd. ［Operation: 2003］	Miyoshi Oil & Fat Co., Ltd.	Production and sales of whipped creams.
	Tianjin Namchow Oil & Fat Co., Ltd. ［Equity participation: 2004］	Miyoshi Oil & Fat Co., Ltd.	Production and sales of margarine, etc.
	Tingyi-Asahi-Itochu Beverages Holding Co., Ltd. ［Founded: 2004］	Asahi Breweries Group; Itochu Corp.	Production and sales of beverages.
	Tianjin Kameda Food Co., Ltd. ［Founded: 2005］	Kameda Seika Co., Ltd.	Production and sales of rice snacks.
	Kagome (Hangzhou) Food Co., Ltd. ［Founded: 2005］	Kagome Co., Ltd.; Itochu Corp.	Production and sales of beverages based on vegetables and fruits.

Notes: (1) * means the given company's ownership of the affiliates in China is less than 10%.
(2) Zhuhai Kirin President Brewery Co., Ltd., has been dissolved.

Language and cultural barriers for Japanese affiliates in China

As mentioned above, in many cases of Japan-Taiwan JVs in China, Taiwanese partners help Japanese parties to more easily access local information, including know-how for doing business in China.

Table 5: Major Difficulties Faced by Japanese Corporations Investing in China

(%)

Difficulties			Rate of response
Personnel and labor management			91.2
	Recruitment & retention	Difficulties in recruitment of professionals	64.7
		Headhunting and job-hopping	42.4
		Others	8.6
	Training	Worker-level	42.4
		Sales staff	30.2
		Management-level	73.2
		Others	2.0
Relations with government organs and agencies			82.9
	Implementation of laws and policy measures		77.9
	Licensing procedures		76.4
	Requirement of payment and inspection in an illegal manner		22.1
	Others		0.9
Difficulties regarding laws and policies			76.6
	Tax matters		52.7
	Customs matters		54.9
	Foreign currency controls		36.5
	Labor issues		23.5
	Restriction upon foreign corporations (management scope and authorization procedures)		29.6
	Others		1.1
Sales and marketing			71.9

Note: Multiple answers possible. Time period of questionnaire survey: October-December 2004. No. of responding firms: 379.

Source: Japan-China Investment Promotion Organization (2002a), pp.7-8.

Before examining this merit, we will take a look at the main problems that Japanese companies doing business in China often confront. **Table 5** is the result of a questionnaire survey on this issue, conducted by Japan-China Investment Promotion Organization in the forth quarter of 2004. The table reveals that the major issues center on personnel and labor management, relations with government agencies and legal/policy affairs. Close communication with local employees and local government parties is necessary in order to mitigate and solve these problems. However, the difference in language, culture and behavioral patterns serve as barriers to resolving the problems. In fact, in a questionnaire survey by the Economic Information Department of the Japan External Trade Organization (JETRO), 34.6 percent of Japanese corporations considering market entry into China said that they "lack in-house human resources who are competent in terms of language abilities"[8]. Furthermore, in a questionnaire survey of Japanese manufacturers expanding into China conducted by the Ministry of Economic Trade and Industry, Ministry of Health, Labour and Welfare, and Ministry of Education, Culture, Sports, Science and Technology in February 2004, 41.8 percent of the respondents cited the "difficulties in communication" as the "current challenge in business operations in China"[9].

The mitigation of problems in communications with Chinese employees and Chinese government officials

One of the significant advantages of Japan-Taiwan JVs in China for Japanese companies is the opportunity to collaborate with the Taiwanese business partner's Taiwanese employees, who possess a good understanding of Chinese culture and language, manufacturing technology, and production management, and a high comprehension of Japanese business and organizational culture acquired through the long history of collaboration between Taiwanese and Japanese companies. In addition, more than a few Taiwanese personnel of Taiwanese partners have experience doing business in China due to Taiwan's vigorous investment in that country. In fact, many of the Japanese corporations opting for Japan-Taiwan JVs are utilizing these personnel as "linguistic, cultural and technological translators," placing them in operational positions requiring daily contact with Chinese employees and local government staff. In many cases, the Taiwanese business partners play important roles in (1) the negotiations with various government agencies for setting up a Chinese affiliate, (2) labor matters and personnel management after the establishment of a Chinese subsidiary, (3) production management, (4) negotiations with government agencies in matters such as customs, and (5) sales for Chinese consumers and clients.

One might speculate that employing Chinese translators would mitigate the problems in communications with Chinese staff and government officials. This is undeniably also one method to overcome the obstacle. However, it is not easy to hunt up personnel with deep knowledge of technical terms. Rather than linguistic ability, comprehensive ability regarding corporate culture, technology and know-how is more valuable in terms of time-saving. In fact, even in the case in which Taiwanese managers dispatched to a subsidiary established by Japan-Taiwan JV in China cannot speak Japanese, if Japanese executives give only brief directions through translators to them – i.e. “we should introduce *kanban* and *andon* to our factory,” Taiwanese managers with deep knowledge about production management quickly understand the intentions behind the direction and effectively instruct Chinese employees in Chinese. This merit of Japan-Taiwan JVs can be effortlessly imagined, compared to the time that would be required for Japanese executives to give precise instructions to Chinese staff through translators[10].

Taiwanese personnel who can play the role of “linguistic, cultural and technological translators” bridging the gap between Japan and China are valuable assets for Japanese companies and are the fruit of development of economic relations between Japan and Taiwan. Taking as an example the foreign direct investment in Taiwan by Japanese corporations, since the end of World War II (WWII), Taiwan has played an important role as a major production site for Japanese corporations striving to shift their production sites overseas. Investment in Taiwan by Japanese corporations after WWII started in 1952, the year after the Japanese government authorized outward direct foreign investment and the year in which the Taiwanese authorities opened the door to the inflow of foreign direct investment. The period from the late 1960s to the early 1970s generated a Taiwan investment boom among Japanese corporations, mainly among labor-intensive industries and the electric appliance industries, amid the rise of production costs in Japan and the sharp appreciation of the yen. From around the mid-1980s, the appreciation of the yen following the Plaza Accord led to the rise of investment in Taiwan in industries such as electric and electronic appliances and precision instruments. Furthermore, the Taiwanese government’s deregulation of investment by foreign automobile manufacturers spurred the entry of both set makers and parts makers into the Taiwanese market. In the ensuing period in the mid-1990s and around the year 2000, the strength of the yen triggered a resurgence of investment in Taiwan.

Thus at the end of November 2005, there were 901 affiliates established in Taiwan by middle-sized or larger Japanese companies according to the 2006 issue of

Kaigai Shinshutsu Kigo Soran. In numerical terms, Japan ranks in sixth place in the world after China (4,404 cases), the US (3,414 cases), Thailand (1,529 cases), Hong Kong (1,108 cases) and Singapore (1,034 cases), underscoring the importance of Taiwan in the global strategy of Japanese corporations for the division of labor.

Over the course of the development of economic relations between Japan and Taiwan since the end of WWII, assisted by the historical fact that the Taiwanese learned the Japanese language in the colonial period, many Taiwanese personnel have continuously been nurtured. Abo et al. (1991) indicates companies making foreign direct investment often face a dilemma between "application" of an advanced managerial/production system to the host country and "adaptation" to the foreign environment. Japan-Taiwan JVs, which can deploy Taiwanese personnel as translators in the aforementioned sense, make it easier for Japanese companies to strike a balance between "application" and "adaptation."

The diversification of Chinese information sources using information networks of Taiwanese affiliates in China

As shown by the result of the questionnaire survey in **Table 5**, many Japanese corporations possessing Chinese affiliates are faced with problems, such as the opacity, inequality and irrationality of laws and policy management. To avoid or resolve these problems, it is necessary to secure local routes and sources for the prompt and accurate collection of information.

There are Japanese corporations engaging in Japan-Taiwan JVs which are diversifying their information sources by actively gathering information through networks of local Taiwanese companies. For example, in the case of investment in the form of Japan-Taiwan JV, information is gathered through the Taiwanese JV partner. The typical cases are the JVs in China between a Taiwanese auto parts maker, Hsin Chong Machinery Works Co., Ltd., and many Japanese auto parts manufacturers. A Chinese subsidiary in Wuxi City of Jiangsu Province, which is fully owned by the Hsin Chong Group, provides information about the local labor market collected through various routes and provides an original plan for the wage system for four other subsidiaries jointly set up between the Hsin Chong Group and Japanese companies in Wuxi City[11]. In the cases of investments utilizing Taiwanese subsidiaries, information is collected through Taiwanese corporate associations and networks among Taiwanese employees.

While the Chinese government strictly regulates foreign companies' establishment of corporate associations, Taiwanese corporations have been allowed to establish as many as 93 Taiwanese corporate associations in 25 of 31 provinces, municipalities and autonomous regions of China, under the government's political consideration for unification of Taiwan by facilitating development of cross-Strait economic relations. Many of these corporate associations maintain close relations with local government authorities. In fact, a questionnaire survey of Taiwanese companies with Chinese subsidiaries conducted by the Chinese National Federation of Industries in October 2005 showed that 24.1 percent of them solved business troubles in China with the assistance of Taiwanese corporate associations[12]. Furthermore, Taiwanese corporations in many cases take a far more outgoing stance toward tackling new business opportunities in comparison to Japanese companies. Thus, given the widespread notion that Taiwanese corporate associations have access to up-to-date information, there are Chinese sub-subsidiaries (wholly-owned subsidiaries of Taiwanese subsidiaries) established through wholly-owned Taiwanese subsidiaries of Japanese corporations that place great emphasis upon information obtained by joining Taiwanese corporate associations in China[13].

It may be said that the merit of additional information sources from information networks of Taiwanese corporations derives from the combination of the large presence of Taiwanese corporations in China, the linguistic and cultural similarities across the Strait and the unique political situation between Taiwan and China. The perceived merits of easier access to the local information required to adapt to the Chinese business environment are shown in the results of the questionnaire survey displayed in **Table 3**. Of the Japanese respondents, 60.9 percent expect the Taiwanese investing parties to solve the problems in personnel management and training of Chinese staff, and 42.2 percent of the respondents anticipate that their Taiwanese partners will communicate with local Chinese government officials better than Japanese companies could communicate with such officials..

Mutual trust: Indispensable asset for Japan-Taiwan JV

The aforementioned frequent and close contacts between Japanese and Taiwanese companies for a long period of time may have contributed to building the precious firm-specific asset called *trust*.

In fact, most of Japanese corporations opting for this format of investment are selecting Taiwanese firms with longstanding business relations and tie-ups as their co-investors. More specifically, they are choosing business partners from among (1) technological licensees and/or consignees of manufacturing operations (e.g., a JV between Origin Electric Co., Ltd., and Donbon Paints Ind. Co., Ltd., JVs between Musashi Paint Company Co., Ltd., and Great Century Paints Co., Ltd., a JV between Yutaka Giken Co., Ltd., and Full Wei Industry Co., Ltd., a JV between ADEKA Corp. and Chang Chun Group, Hsin Chong Group's JVs with Tokai Rika Co., Ltd., Toyo Seat Co., Ltd., Ohi Seisakusho Co., Ltd., Delta Kogyo Co., Ltd., Namba Press Works Co., Ltd., and Otsuka Koki Co., Ltd., a JV between Lioho Machine Works, Ltd., and Ibara Seiki, Co., Ltd., a JV between Nanjo Sobi Kogyo Co., Ltd., and GSK Group, a JV between Iwatsuka Confectionary Co., Ltd., and the Want-Want Group, and so on), (2) partners in establishment of other JV companies in Taiwan (e.g., JVs between Toyo Tire & Rubber Co., Ltd., and Cheng Shin Rubber Ind. Co., Ltd., a JV between the Nisshin OilliO Group and the Uni-President Group, a JV between Kikkoman Corp. and the Uni-President Group, a JV between Ohi Seisakusho Co., Ltd., and Hsin Chong Group, a JV established by Dai-ichi Kogyo Seiyaku Co., Ltd., Lidye Co., Ltd., and their affiliate in Taiwan, a JV founded by Piolax Inc., San Long Industrial Co., Ltd., and their affiliate in Taiwan, a JV between Ichikoh Industries, Ltd., and Ken Sean Factory Co., Ltd., a JV between Tokyo Ohka Kogyo Co., Ltd., and Chang Chun Group, JVs between Nippon Bee Chemical Co., Ltd., and the Tong Yang Group, etc.), (3) distribution agents of the Japanese company's products in Taiwan and Taiwan-China trading companies dealing with its products (e.g., a JV between Toyoda Gosei Co., Ltd., and Twin Hill Corp., a JV between Sumitomo Metal Mining Co., Ltd., and Wah Lee Industry Group, a JV between Shin-Etsu Chemical Co., Ltd., and Topco Technologies Group, a JV between Hitachi Group and Yungtai Engineering Co., Ltd., etc.), and (4) companies owned by Taiwanese proprietors closely acquainted with chief executives of Japanese corporations (e.g., a JV between Toyota Industries Co., Ltd., and Lioho Machine Works, Ltd., etc.). By doing so, both parties are striving to minimize the costs necessary for the coordination of options.

While it is relatively rare to have third parties act as mediators, there is a fifth type of case where major Japanese trading companies, or major Japanese manufactures, act as mediators (e.g., a JV established in Guangdong Province by Kashima Electronics Inc. (Japanese) and Asia Optical Co., Inc. etc.). This mediation can be interpreted as behavior where the mediator provides assurance to the potential investing parties who are not acquainted. While there are a few cases of chief executives of Japanese corporations seeking out and proposing joint ventures with Taiwanese corporations and succeeding in business endeavors in China, and vice versa where Taiwanese corporations seek out and propose joint ventures with Japanese corporations with high technological skills (e.g., a JV between Tochigi Fuji Sangyo K.K. and Lioho Machine Works, Ltd., etc.), these cases are extremely rare.

Although this paper does not directly measure the extent of mutual trust between Japanese and Taiwanese companies jointly investing in China, they tend to select partners with whom they have frequent and close contacts, which are one of the most representative proxies of the existence of interfirm trust.

Discussion

This paper preliminarily indicated that Japan-Taiwan JVs in China, which fall into the category of “Trinational IJVs,” are not as unstable as the precedent paper assumed. Contrary to the traditional assumptions, the higher survival rate of Japan-Taiwan JVs in China is attributable to easier access to the Chinese market, information and other managerial resources through Taiwanese partners. This merit of this format of JVs for Japanese investing parties is supported not only by linguistic and cultural similarities across the Taiwan Strait but also by the large economic presence of Taiwanese companies in China. This fact reasonably suggests that a viable entry mode for foreign companies is likely to be JVs with third-country based companies that possess a large economic presence in the developing countries like China, which are highly dependent on FDI for their economic development. In such cases, the classification of “Trinational IJV” may be so oversimplified as to overlook the relationship between the FDI’s performance, entry modes and the host country’s condition.

In addition, this paper attributed the low termination rate of Japan-Taiwan JVs in China to the fact that Japanese companies utilizing this format of JVs in China tend to choose Taiwanese partners with whom they have frequent and close economic transactions, which are assumed as a proxy of the existence of trust. This evidence reminds us of the importance of trust in addressing the problem of JV’s performance, as the prior literature has stressed.

However, there still remain many problems concerning the performance of Japan-Taiwan JVs in China.

First, this paper could not use stricter statistical methods in assessing the performance. Therefore, the possibility of sample biases is not completely rejected. As noted above, it is still difficult to acquire reliable, comprehensive and informative micro data on overseas affiliates established by Japanese companies, especially on Japan-Taiwan JVs in China. Further improvement of related statistics should be required. This will enable us to use more variables in figuring out the relationship between entry mode and performance of foreign affiliates in more sophisticated ways, while this paper relied only on survival rates because there is only small number of samples with other variables like profitability.

Secondly, structural change of complementarities in managerial resources and conflicts among investing parties may emerge not only as dissolution but also as historical change of equity ratio each party possesses. This perspective is also worth involved and is required to consider the problem of cooperation and competition between Japanese and Taiwanese companies.

Third, it should be examined whether some weakness in Japanese companies is implied since more than a few Japanese corporations have opted for JVs with Taiwanese firms. It is still possible that lack of knowledge on how to effectively utilize Chinese and Taiwanese talents within the unified global personnel management system might force some Japanese companies to prefer JVs with Taiwanese companies rather than employing these foreign talents by themselves or merging the partners. As mentioned above, a major motive of Japan-Taiwan JVs in China for Japanese companies is to utilize firm-specific assets like distribution networks that Taiwanese parties possess. However, some Japanese companies stated that their main reason for using this entry mode is to benefit from Taiwanese employees who can speak both Japanese and Taiwanese. If this motive is common among Japanese companies, frequent use of Japan-Taiwan JVs in China does indicate weakness in Japanese companies' ability to do business abroad.

Fourth, this research has shed the light mainly on the "survival" aspect of Japan-Taiwan JVs in China. Given that the Taiwanese technical level is catching up to the Japanese level and Japanese firms are also accumulating experience from doing business in China, however, further research on the "dissolution" side is required.

From the viewpoint of changes in complementarities of managerial resources between Japanese and Taiwanese companies, it is worth mentioning the emergence of competitive relationships among the Chinese affiliates established by Japan-Taiwan JVs and parent companies in Japan or other group affiliates in China established by the

Taiwanese partner, which in turn sparks a conflict of views. This is because there has been a sharp increase of cases where Japanese and Taiwanese partners establish a number of Chinese affiliates in view of the importance of the Chinese market for new business development, amid the maturation of both the Japanese and Taiwanese economies[14].

Also, there are some cases where an imbalance in the speed of learning managerial resources possessed by the other partners leads to a change in the ownership share of the Chinese affiliates established by Japan-Taiwan JVs. As Kogut (1998) and Barkema et al. (1996) indicate, one of the major motives of JVs is to learn their counterparts' managerial resources for generating competitive edges. The complementarities of managerial resources among investing parties are apparent in the early stage of operation, but when a joint venture party has absorbed most or all of the technology and know-how from its joint venture partner in the course of time, it may start to feel that the burden of coordinating differing views outweighs the merits of the business tie-up. It may then ask the partner to increase its ownership of the Chinese subsidiary or suggest dissolution of the joint venture to the counter-party. This is, so to speak, "the completion of the learning process" through Japan-Taiwan JVs in China[15]. To forecast the longevity of this format of JVs, we should focus our attention on conflicts in the operation of the JVs, although the termination rate of Japan-Taiwan JVs in China is not high at the moment.

Finally, direct measurement of the level of mutual trust (i.e., questionnaire surveys of Japanese and Taiwanese managers of parent companies and their Chinese affiliates) is required to scrutinize the trust level and the JVs' performance. In addition, this paper has not addressed the issue of the relationship and interaction between trust level and control level (Das & Teng 1998).

Although there remain the problems mentioned above, this paper contributes to the reconsideration of the concept of the "Trinational IJV" and its performance in the context of trust among investing parties and the positioning of the third-country based partner in developing countries with high dependence on FDI.

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[1] Generally, most of Taiwanese companies have indirectly made investments in China for several reasons. First, the Taiwanese government forbade Taiwanese companies to directly invest in China until July 2002 because it regarded such investments were risky given that there is no investment treaty between Taiwan and the PRC and the mainland government was hostile against the Taiwanese government. Secondly, Taiwanese firms also have preferred indirect investments in China through countries and regions that have signed investment treaties with China in order to hedge the political risk. Finally, indirect investments through tax-havens also serve as a tax dodge. Due to this fact, criterion (iii) does not contain the condition of whether the Taiwanese party invests in China directly or not.

[2] Given the characteristics of the aforementioned source materials, we do not think that the foregoing provides a full account of Japan-Taiwan JVs in China, especially those made by small companies.

[3] The survival rate of Japan-Taiwan JVs in China founded from 2000 to 2005 is 91.9 percent, which is nearly equal to the 94.1 percent survival rate of all the Japanese affiliates established in the same period.

[4] The estimate share is calculated from the data of the Directorate General of the Budget Accounting and Statistics, Executive Yuan and data from the Market Intelligence Center, Institute for Information Industry.

[5] Contrary to presumption, there were no Japanese companies stating their main motive as easier access through Taiwanese partners to cheaper parts provided by industrial clusters mainly composed of Taiwanese affiliates, among the surviving cases of Japan-Taiwan JVs. It should be further examined to what extent improved accessibility to procurement networks of Taiwanese affiliates through Taiwanese partner contributes to cost-cutting.

[6] Tingyi (Cayman Islands) Holding Corp., *2005 Annual Report*, 2006, p. 3.

[7] According to the Uni-President Group's website <www.uni-president.biz>, accessed 20 November 2006).

[8] Japan External Trade Organization, Economic Information Department. (2002a), p. 75.

[9] Ministry of Economic Trade and Industry, Ministry of Health, Labour and Welfare, and Ministry of Education, Culture, Sports, Science and Technology (2004), p. 17.

[10] Interview with a Japanese executive of Company A, a Chinese affiliate manufacturing auto parts set up by Japan-Taiwan JV in February 2006.

[11] Interviews with the top Japanese and Taiwanese executives of these Chinese subsidiaries in February 2006.

[12] Multiple answers are allowed. Valid responses numbered 208 (Tsai, 2006, p. 23).

[13] Interview with the top Japanese executive of Company B, a subsidiary in Taiwan established by a Japanese machinery manufacturer in October 2005.

[14] Interview with a Japanese manager of Company C, a Taiwanese affiliate whose parent company

jointly invested in China with a Taiwanese company in the food and beverage sector in October 2003. Interview with a top Japanese executive of Company D, a Taiwanese affiliate which invested with a Taiwanese company in China to produce machineries in September 2003.

[15] Interview with a Taiwanese manager of a Taiwanese auto parts maker that established a Chinese subsidiary with a Japanese company in May 2006. The manager recognized that the Japanese partner has learned know-how for doing business in China more quickly than the Taiwanese company has absorbed the partner's technologies because the Japanese company intentionally hid its own technologies to avoid nurturing a potential competitor.