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ARTICLES

5 INTERTEMPORAL SHIFTS IN ACTUAL AND ANTICIPATED EXCHANGE RATE RISK

Jeff Madura and Alan L. Tucker

Exchange rates and currency option premia are employed to assess the intertemporal shifts in exchange rate volatility. The subperiods are segmented by the October 1987 stock market crash. While we cannot necessarily attribute any shift to the crash or its underlying determinants, our analysis offers some insight about exchange rate risk perceptions.

11 GLOBALIZATION OF PRIVATE ENTERPRISE SYSTEMS: PROGRESS TOWARD PRIVATIZATION

John Hallaq and Faramarz Damanpour

The world economy tumbled during the late 1970's and early 1980's, following the tripling of prices of oil and due to drought and the failure of economic development of the developing nations. The growth of world trade volume slowed to a negative trend as the decline in wealth of nations necessitated curbs in importation to narrow deficits in the balance of payments and in response to domestic economic crises. Many nations have sought economic and political solutions to new crises in their internal affairs via privatization. As a result, the globalization of the private enterprise system is being rejuvenated.

18 LARGE AND SMALL BUSINESS CORPORATION IN INTERNATIONAL TRADE

Eugene T. Bonk

Increased competitiveness in the global economy requires greater cooperation between large and small business, domestically and internationally. This is the era of strategic alliances that combine the appropriate resources from anywhere in the world to reach target markets. These shared resources may be in the form of products, sales, marketing and distribution, research, engineering, technology transfer, finance and various mutual support services. The paper outlines some of the latest thoughts on business of various sizes developing international trade relationships.

25 ACTIVITY BASED COSTING: A COST ACCOUNTING MODEL FOR GLOBAL COMPETITION

Jeffrey P. Lessard and M.H. Sarhan

Traditional cost accounting methods are unable to provide accurate data necessary for strategic managerial decisions where labor cost are a small percentage of product cost or where indirect labor cost have a nonlinear relationship with volume. This paper explores the use of Activity Based Costing as an appropriate accounting model. The benefits of this three step method are expected to be greater where manufacturers have broad product bases or a fluctuating run size.

30 THE RESPONSIVENESS OF SUPERVISORY LEVEL MANAGERS TO EXPECTANCY IN A DEVELOPING COUNTRY

Charles Chekwa

The Pygmalion effect on supervisory level management trainees and performance was examined in a field experiment with 120 managers on a seven-week residential management development program taught by 20 instructors. The management trainees were assigned to either high or low instructor expectancy conditions on a random basis. Those trainees of whom instructors had been given high expectations performed better on the course and exhibited more positive attitudes toward it than trainees of whom instructors had been given low expectations. When their job performance ratings were measured nine months later by their supervisors, there was no difference in the two groups. Management development program implications from this experiment are discussed.

34 A PROPOSED SYSTEM TO FINANCE CONSUMER GOODS IN EASTERN BLOC EUROPE: UTILIZING FINANCIAL TECHNOLOGIES TO DEAL IN NON-TRADED CURRENCIES

E. James Randall, John B. White, and Morgan P. Miles

A small non-scientific sample of twenty-four Eastern European officials and party leaders were surveyed concerning how the free flow of economic reporting can be enhanced. Current concerns of political and opinion leaders are examined and the status of free flow of information is examined. Unlike their Western counterparts, Eastern European writers wish to take an active role in "triggering social and political change."

ARTICLES CONTINUED

40 AN UNSTEADY FUTURE: CHANGES AHEAD IN ECONOMIC REPORTING FROM EASTERN EUROPE

Laurence Barton

The European Common Market is overshadowing the great market potential of the newly liberated Eastern Bloc countries. Entering these markets is challenging because of a lack of sound economies and weak currencies. This paper proposes entering these consumer markets by selling consumer products, accepting local currencies, purchasing local goods with the local currency and then selling these goods through commodity exchanges. A company can hedge these investments through purchasing futures. This will make imported consumer goods available in local currencies and at the same time provide much needed economic stimulation to local economies.

46 A HEURISTIC FOR LOCATING A RETAIL BUSINESS IN JAPAN

Jon P. Alston, Hiroshi Fukurai, Yeongi Son, and Minjeong Park

We propose that non-Japanese multinationals seeking to enter the Japanese market consider locations other than Tokyo, as is the usual practice. In fact, a number of other urban centers offer distinct social and economic advantages over locating in Tokyo. The major reason is that Tokyo is already over-developed and over-populated in relation to other Japanese cities. This has resulted in high population density and very high commercial land values. In Tokyo proper, the 1988 average value of commercial land was over \$20,000 per square meter. In the Ginza area, some land values averaged \$242,800 per square meter and over. We suggest that, among other cities, Osaka is a prime choice for expatriates wishing to locate in Japan. The paper offers a number of social and economic reasons why Osaka should be considered as a location, including the values for commercial and residential land.

53 INTERNATIONAL COMOVEMENT OF STOCK MARKET INDICES: A CAUSALITY TEST ON DAILY DATA

Thomas C. Chiang and Mitchell Ratner

This paper conducts causality tests to examine the covariation between the equity markets of the United States, Japan, and Canada. The test results of three major equity markets support the notion of correlation between the world's equity markets and demonstrate the strength and nature of the causal relationships.

58 JAPANESE DEMAND FOR U.S. TREASURY DEBT

Ralph C. Gamble, Jr.

A theoretical model is developed and tested which postulates three determinates of Japanese demand for U.S. Treasury debt: cross-country interest rate differentials, exchange rates, and real foreign income. Coefficients exhibited correct signs and were significant except for the interest rate differential. These results indicate that in the absence of slowed Japanese growth or significant dollar appreciation one should expect continued growth in Japanese holding of U.S. Treasury debt.

64 POLITICAL AND ECONOMIC TRANSFORMATION IN THE EAST BLOC: IMPLICATIONS FOR GLOBAL BUSINESS STRATEGIES

Peter Varkonyi

The keynote address by the Ambassador from Hungary to the 1989 Association of Global Business meeting in New Orleans.

BOOKS REVIEWED

67 THE INTERSTATE BANKING REVOLUTION: BENEFITS, RISKS, AND TRADE OFFS FOR BANKERS AND CONSUMERS

by Peter S. Rose

Reviewed by James C. Baker, Kent State University

68 THE EVOLUTION OF FOREIGN BANKING INSTITUTIONS IN THE UNITED STATES: DEVELOPMENTS IN INTERNATIONAL FINANCE,

by Faramarz Damanpour.

Reviewed by Brian A. Reynolds, National College of Education

69 INTERNATIONAL FINANCE AND OPEN ECONOMY MACROECONOMICS

By Francisco L. Rivera-Batiz and Luis Rivera-Batiz.

Reviewed By John S. Kaminarides, Arkansas State University

70 THE JAPAN THAT CAN SAY "NO"-THE NEW U.S. JAPAN RELATIONS CARD, JAPAN, 1989

Akio Morita and Shintaro Ishihara

Reviewed by Nick Hauser, Rice University

A HEURISTIC FOR LOCATING A RETAIL BUSINESS IN JAPAN

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■ *We propose that non-Japanese multinationals seeking to enter the Japanese market consider locations other than Tokyo, as is the usual practice. In fact, a number of other urban centers offer distinct social and economic advantages over locating in Tokyo. The major reason is that Tokyo is already over-developed and over-populated in relation to other Japanese cities. This has resulted in high population density and very high commercial land values. In Tokyo proper, the 1988 average value of commercial land was over \$20,000 per square meter. In the Ginza area, some land values averaged \$242,800 per square meter and over. We suggest that, among other cities, Osaka is a prime choice for expatriates wishing to locate in Japan. The paper offers a number of social and economic reasons why Osaka should be considered as a location, including the values for commercial and residential land.*

Introduction

This paper deals with the question of where a foreign company should be located in Japan. Most persons involved in the first stages of international retail ventures focus on the product and only later consider problems related to logistics and culture (distribution, channels, local environment, etc). Yet there are many types of choices that have to be considered. Those wishing to establish retail outlets in Japan, for example, must consider whether to select a port or an inland city, a large or smaller urban center, or to locate in the suburbs versus the center of a large metropolitan area. In addition, the central and provincial governments offer certain benefits when forming and national ventures locate in areas targeted for development. Each choice, of course, involve advantages and disadvantages.

Many countries have inadequate infrastructures, or else logistic structures that are very different from those found in the United States. [Terpstra 1982] At one time, for example, Pepsico's Mexican distribution system was made up primarily of a fleet of thirty-seven bicycles, though now the company has over a thousand trucks. [Terpstra 1987: 407]

One of often-neglected dimensions of international marketing is that of location determination, a dimension of marketing especially important for those wishing to establish

markets in Japan. In fact, Japan contains certain situations that make "location" more than usually important for multinationals and expatriates wishing to do business in Japan.

There are four important reasons why non-Japanese multinationals need to develop a strategy for the possible establishment of their retail outlets in Japan.

● First, Japan has become one of the financial capitals in the world. As a result, almost all multinational banks and financial institutions have established Tokyo branches to accommodate today's changing world economy. At the close of 1987, for instance, the world's ten largest banks based on deposits were Japanese. In terms of the sheer weight of deposits from more than 110 million people, these Japanese megabanks hold more than fifty-seven percent of all deposits of the world's largest twenty-five banks. [Krooth and Fukurai 1990] Commercial and financial outlets in Tokyo thus form an important dimension of the commercial strategies of multinational corporations wishing to establish in Japan.

● Second, prices in the Japanese domestic market were once largely controlled and set high by monopolistic Japanese distributors. As the yen appreciated, however, prices fell for certain foods, natural resources, and many consumer products imported into Japan. The wide-spread general

perception of cheaper and more available foreign goods among Japanese consumers leads to a distinct advantage for expatriate multinationals in establishing market in Japan. For instance, in the mind of Japanese consumers in 1987, the prices of specific import items had either gone down or remained unchanged, not increased.

TABLE 1
JAPANESE CONSUMERS' PERCEPTION ON
THE PRICE OF IMPORTED GOODS: +
FEBRUARY 1987

The Price of Imported Goods is				
Imported Goods	Going Down	Unchanged	Going up	Other
FOOD				
Shrimp	53.2%	31.9%	5.8%	9.0%
Banana	57.0	28.7	8.6	5.7
Sweet Corn	24.0	45.7	1.9	28.4
Natural Cheese	30.1	46.9	2.9	20.0
Salad Oil	55.7	36.6	2.8	4.9
NATURAL RESOURCES				
Gasoline	74.2	10.1	10.8	4.8
Lamp Oil	83.6	7.1	7.0	2.3
Propane Gas	63.3	15.6	2.2	18.5
ALCOHOL				
Whiskey	31.0	50.1	1.8	17.1
Wine	21.3	52.8	0.8	25.1
OTHERS				
Shirt	6.6	34.7	0.9	57.7
Fountain Pen	7.1	45.5	0.3	47.1
Watch	8.6	42.1	0.3	49.1
Handbag	13.4	35.9	0.7	50.1

+ vs. the list of prices at the end of May in 1986.

Source: Economic Planning Agency Survey Report February 1987, White Paper on Japanese National Life (Kokumin Seikatsu Hakusho), edited by Economic Planning Agency, published by Ministry of Finance, 1988.

Only in textiles and personal luxuries did consumers think that prices had sharply risen. Such perceptions become increasingly important as the Japanese government currently supports the new demand-led economy and encourages consumers to spend more rather than invest or save. [Krooth and Fukurai 1990]

• Third, although Japan is highly homogeneous in terms of many marketing considerations (transportation, legal and tax systems, literacy and widespread urbanization) the Japanese establishment offers a number of viable choices in terms of location of retail establishments, warehousing and distribution networks.

Numerous national and regional retail distribution systems are available, including department stores, small family-owned outlets, *zaibatsu* and *sogo-shosha* partnerships, franchises, etc. The foreigner must be able to evaluate each system carefully before deciding which one offers a distinctive advantage for the purpose at hand.

• Last, Japan has about the same number of retail outlets as America for half the population. [Christopher 1983: Chapter 13] However, the infrastructure involved in the distribution of goods is quite different in Japan than those in other countries. In the United States, for example, drugstores account for twenty-seven percent of cosmetic sales. In Brazil, door-to-door sales account for over half of all cosmetics sales; in France and Japan, specialty "Parfumeries" dominate the retail of cosmetics, while department stores sell over half of all cosmetics in Spain. [Davidson 1982: 160-61]

Given these important reasons to establish retail outlets in Japan, the decision on where to locate in Japan becomes especially central when considering selling in a foreign country. Selling and merchandizing in another country necessitate a greater attention to detail than when the context is one's own society. Since more of the social and economic environments are unfamiliar to the expatriate, seemingly innocent errors in global marketing can develop into catastrophic blunders. [Ricks 1983 and Hendon 1989] In a summary of international business blunders, Ricks et al. (1974) found that almost half of all errors fell within the marketing function. One-third of these "blunders" were located in Asia, though we suspect the percentage would have been larger if American business had a greater presence in Asia at that time.

In this paper, we consider the question of where location in Japan would be optimum for a non-Japanese retail establishment offering consumer goods to the general public.

We restrict ourselves to the selling of consumer goods because such companies have been the most successful examples of penetration in Japan. [Christopher 1986]

Land Values in Japan and Tokyo

It is no secret that land prices in Japan are among the highest in the world, and that Tokyo contains the most costly business and commercial footage in the world. This is due in part to Japan's high population density (see Table 2 and Map 1) as well as the fact that urban land prices increased almost 4,000 percent during 1955-1982. In Japan's six largest cities, land prices increased almost 7,000 percent during the same period. [Matsuoka 1982]

As Table 2 indicates, Japan's population density is high in relation to selected other nations. Japan's total population density is roughly equal's to that of the state of New Jersey. However great the population density of Japan, there are nevertheless wide variations. (see Map 1)

While the Tokyo and two other prefectures have an average population density of over 1,000 persons per square kilometer, fifteen other prefectures have population densities of less than 100 persons per square kilometer.

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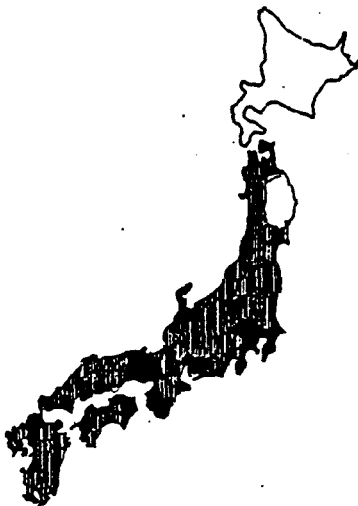
TABLE 2
Selected Socio-Demographic Data:
Japan and Other Nations

	Pop. Density ¹	Urban Pop. (%) ²	GNP ¹
Japan	857	76	\$15,770
Canada	7	77 ¹	15,080
China	298	26	300
France	266	73	12,860
Germany, W.	640	92	14,460
Italy	495	67	10,420
Korea, S.	1,133	65	2,690
Mexico	114	57	1,820
U.K.	606	83	10,430
U.S.A.	69	74	18,430

¹Hanb and Kent (1989). Population density in square miles.
1987 GNP in U.S. dollars.

²Hartley (1982).

Map 1: Population Density of Japan(sq-Km)-1985-

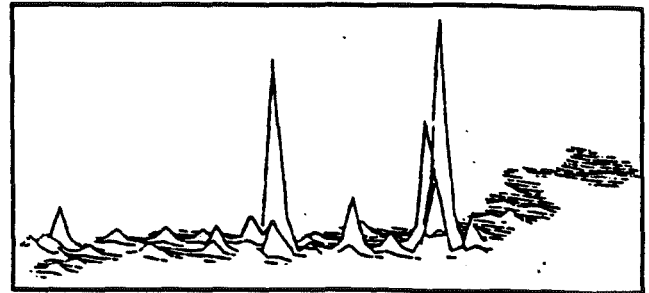


The variation in Japanese population density is better illustrated by Figure 1: three prefectures have extremely high population concentrations, another twelve have relatively low concentrations and fall in an intermediate category; the remaining fifteen prefectures have densities of less than one hundred per square kilometers.

It is obvious that Japan's population is unevenly concentrated and the distribution is skewed more toward higher densities. Partly as a consequence of uneven residential concentrations, land values also vary widely. In the Tokyo Prefecture, the average value of commercial land is over \$20,000 per square meter. Yet in the next prefecture just a few miles away, land values fall to a \$3,000-4,999 range. Remember that the unit of measurement is still dollars per square meters, indicating that commercial land is seldom

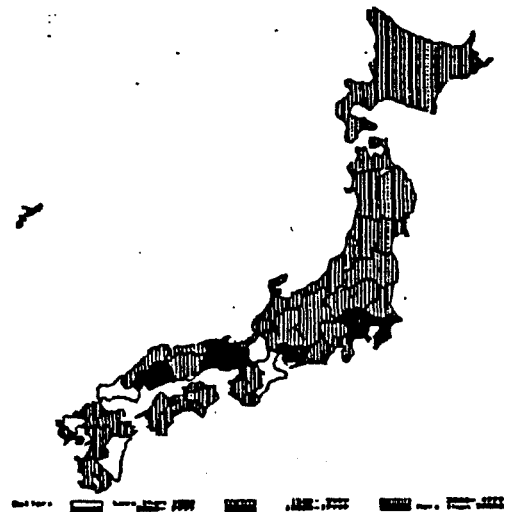
inexpensive in Japan as compared to the United States.

Figure 1: Population Density of Japan-1985-
Per 1 Km square- Census information



Map 2 illustrates the variation in commercial land values in Japan from one prefecture to another. Tokyo and its adjacent prefectures are the most expensive areas in Japan.

Map 2 Business Area Land Values in Dollars (Sq-Meter)-1985-
140 Yen = 1Dollar



Similar to other countries, Japan's social and economic conditions are dominated by its capital city. In this context, Tokyo's dominance of its hinterland is similar to that of many of the world's other metropolitan capitals, such as Paris, London, Berlin, Beijing, or Mexico City. In this sense, only in the United States is there no one single city which dominates the commercial, educational, cultural, and governmental institutions of the culture.

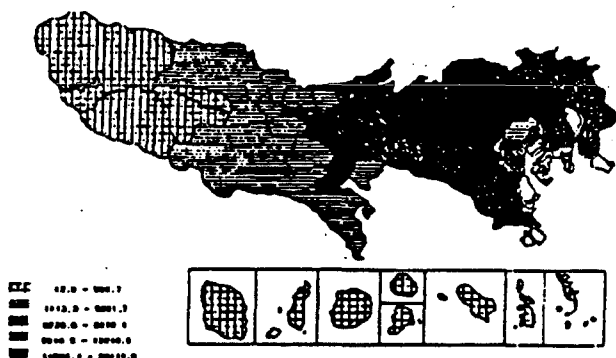
By contrast, Tokyo is the major socio-economic and geopolitical center of the Japanese society. The city maintains a monopoly on the most important economic and cultural functions of the nation. For that reason, it is common for foreigners to assume that the issue of location is a simple one: location in Tokyo is the only choice, especially since Tokyo is becoming the world's commercial and financial center.

We believe, however, that this attitude is simplistic and ignores relative advantages other Japanese cities enjoy. In fact, there are a number of other cities we recommend as possible locations for expatriate retail businesses in Japan. By the same token, Tokyo offers a number of relative disadvantages as a location site.

A major disadvantage in locating in Tokyo lies in the fact that the area is highly populated. In some political subunits, the population per square kilometer falls in the range of 14,509-20,118 (see Map 3). The business central districts in Tokyo are so densely populated that one-fourth of Japan's population lives within a thirty-one mile radius of the Imperial Palace, generally defined as the heart of Tokyo. While the western areas of Tokyo have relatively low levels of population densities, these areas are ill-suited for retail establishments because they are relatively isolated from the business centers and consist in large part of farmland held for speculative purposes.

There has been a number of government-supported projects to help solve the land shortage in Tokyo. One of the major projects to tackle Tokyo's land scarcity is the Noah's floating city concept. In 1988 with the cooperation and support of the government-backed Foundation for R&D of Ocean City, thirty Japanese corporations, including giants such as I.B.M. Japan, promoted the concept of building a floating city in Tokyo Bay. The organization produced the draft of a 21st century, \$200-billion, million-resident quadruple-deck platform twice the size of central Tokyo, enclosing eight golf courses, two baseball stadiums, and an airport for hypersonic planes. In July 1988, the company announced a \$2-billion model—a floating city to be constructed within five years, using known technology on a realistic project. [Krooth and Fukurai, 1990] Yet even this project is still in the drafting stage. The project to expand the geographical territory has not yet materialized and does not offer at this time a realistic solution to the scarcity of relatively cheap, available land in Tokyo.

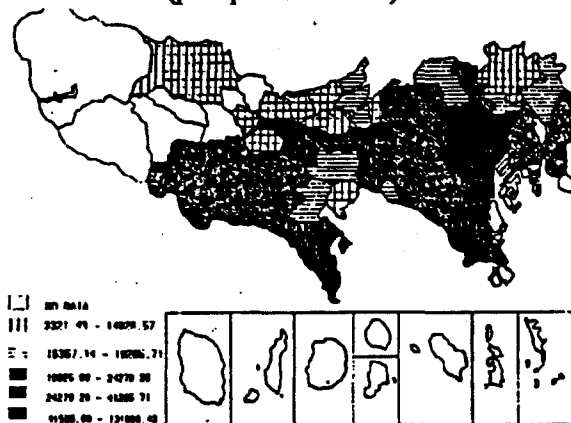
Map 3 Population Density of Tokyo, 1965
(per Square Kilometer)



Another major disadvantage of Tokyo as a site for retail activities lies in part in Tokyo's over-development. Not only are there high residential densities in most of Tokyo, but the prestige of the central part of the city has forced land values to become what we can only describe as astronomical. Land in the important commercial areas of Tokyo is among the highest in value in the world. While Japan's total land area is three percent that of the United States, Japan's land value is estimated to be more than double that of America's. An indication of the value of land in Japan and in Tokyo is that Japan contains more billionaires than does the United States. But the wealth of these persons is primarily due to land speculation, ownership and control. [Tanzer, 1987]

Map 4 shows the average commercial land values (1987) in Tokyo, based on its political subunits. As can be readily seen, the most prestigious commercial areas (in the East-to-center) are quite expensive, to say the least. The average value of land in the Ginza and nearby ranges between \$41,565 and 131,991 a square meter.

Map 4 Population Density of Tokyo, 1965
(per Square Kilometers)



● Note that this is an average, and some frontage of the Ginza and other commercial/entertainment areas is valued much higher. In these areas, land is calculated in units as small as square centimeters. It is obvious that leasing land in the preferred commercial areas is prohibitive, and that buying such land outright has become almost impossible.

Given the financial and structural limitations of establishing commercial outlets in Tokyo, those wishing to locate in Japan have other alternatives. Japan's fifteen largest cities are relatively large, with the smallest having a population of over half a million. But size is not the major factor we wish to consider.

● Note in Table 3 on the next page that the population densities of many of these metropolitan centers are much lower than that of Tokyo. Correspondingly, the buying and rental costs of land in these cities are much lower than in

downtown Tokyo. In addition, some of these cities are also centers of manufacturing, a reliable measure in Japan of commercial activity and prosperity.

TABLE 3
JAPAN'S LARGEST TWENTY CITIES 1988¹

CITY 1988	POPULATION 1975-88	POPULATION DENSITY ²	GROWTH ³	NUMBER OF MANUFACTURERS
TOKYO	8155781	13552.1	-268687	106683
OSAKA	2543520	11935.2	-173270	44479
YOKOHAMA	3121601	7233.1	548942	11128
NAGOYA	2099564	6402.9	26555	21472
KYOTO	1419390	2324.5	-32691	18168
KOBE	1426838	2615.9	102062	8542
SAPPORO	1582073	1415.1	394848	3722
KITAKYUSHU	1035053	2151.7	-18209	3229
KAWASAKI	1114173	8164.2	133298	6096
FUKUOKA	1157111	3421.6	212199	3565
HIROSHIMA	1042629	1414.7	159003	4251
SAKAI	807680	6021.2	81240	4773
SENDAI	865630	1098.5	201557	2212
CHIBA	800620	2958.1	170778	1680
AMAGASAKI	497212	10050.8	-38415	3240
HIGASHIOSAKA	42893	8148.0	3946	10622
HAMAMATSU	522299	2085.9	54046	6448
KUMAMOTO	554904	3231.3	86770	1393
NAGASAKI	445814	1843.8	1422	1065
KAGOSHIMA	527979	1824.3	75237	1807
SHIZUOKA	469782	409.9	25152	5517

¹Source: *Nippon Almanac*

²Population Density per Square Kilometer

³Absolute Migration (- : net loss)

Osaka as a Prime Location Site

We suggest that foreigners wishing to locate in Japan consider locating in a city other than Tokyo. While the final decision will be based on the specific nature of the goods to be sold, we strongly recommend Osaka as a prime choice. Osaka is Japan's second largest city and contains a large number of manufacturing and commercial outlets. Osaka is a dynamic population center, and its population and commercial growth during the post-1950 period has paralleled Tokyo. Demographers predict that both metropolitan areas will increase in population during the Twenty-first century. By 2020, the populations of Tokyo and Osaka are predicted to be over eleven and nine millions, respectively. Both expect to increase their surface areas by filling in part of their harbors and using docked ships for office and shopping space.

As significant, Osaka, while a major commercial, population and industrial center, has much lower land costs than those found in Tokyo's districts. Table 4 indicates the 1988 land values, for both commercial and residential land, in Tokyo and Osaka, in terms of the four most and least

expensive subdistricts.

TABLE 4
1988 COMMERCIAL LAND VALUES¹
TOKYO

Average Land Value(m ²)		Highest Land Value (m ²)			
Rank	Name	Yen ²	Rank	Name	Yen
1	Chuo-ku	184,795	1	Chiyoda-ku	340,000
2	Minato-ku	177,618	2	Chuo-ku	340,000
3	Shinjuku-ku	169,925	3	Shinjuku-ku	333,000
4	Shibuya-ku	159,300	4	Minato-ku	310,000
OSAKA					
1	Minami-ku	93,108	1	Osaka-City	260,000
2	Higashi-ku	82,700	2	Kita-ku	260,000
3	Kita-ku	74,923	3	Minami-ku	227,000
4	Osaka-City	46,602	4	Higashi-ku	203,000

¹Highest and Lowest Subunits (ku). For comparison purposes, one dollar equals 150 yen. Source: *Nippon Almanac* (1988)

²In 100 yen.

As can be seen, the value of land is much higher in certain parts of Tokyo. Foreigners wishing to establish a retail outlet in the most fashionable section of either city must expect high rental costs, though Osaka offers the retailer much relatively lower land costs but an equally affluent and cosmopolitan population.

Roughly speaking, Tokyo's commercial land values are from fifty percent to 100 percent higher than those in Osaka. In Chiyoda-ku, Tokyo's highest valued commercial sector, land value is \$242,900 per square meter, assuming that such frontage is available. By contrast, the central district of Osaka, Osaka-City, has land values of \$185,100, though the general average is much lower still. In addition, residential land values in Tokyo is higher than in Osaka, an important consideration when a foreign company must subsidize the housing costs of a large number of expatriates and national employees. In any case, land values are much lower in Osaka.

Osaka can be compared to Tokyo in a number of other ways. We do not wish to claim that Osaka is superior to Tokyo in all aspects; Tokyo maintains some advantage, such as in its lower suicide rate and its higher culture and industrial index. In addition, Tokyo's population is better educated; roughly thirty percent of males over fifteen years old in Tokyo have more than a secondary education, as compared to slightly less than twenty percent in Osaka (Kurosu, 1987).

Osaka has relative advantages over Tokyo in a number of dimensions that are too often ignored.

TABLE 5
SELECTED DEMOGRAPHIC VARIABLES

Variable ¹	Tokyo	Osaka
Land area ²	827	716
Consumer Price Index ³	101	101
Unemployment ⁴ (%)	2.7	3.3
Per Capita Income ⁵	284,400	223,100
Average Salary, Males ⁶	330,100	308,400
Variable ¹	Tokyo	Osaka

Starting Salary, Males ¹	152,600	150,900
<u>SELECTED DEMOGRAPHIC VARIABLES continued</u>		
Av. Household Income ²	939,782	762,019
Industrial Index	98	78
Manufacturing Index	1,803	2,154
Culture Index ²	160	89
Alcohol Consumption ²	44	41
Suicide Rate, 1980 ²	15	17
<u>Total Delinquency Rate²</u>	<u>10</u>	<u>8</u>

¹See Appendix A for variable definitions

²Kurosu (1987)

³Nippon Almanac (1988)

Table 5 indicates that, on a number of dimensions, Osaka compares equally well or even better than Tokyo. Note that the unemployment rate in Osaka is higher, suggesting that the greater proportion of labor force is ready to be absorbed into an expanding economic sector in Osaka. In addition, wages are seven percent lower than in Tokyo. Average household income in Osaka is eight percent lower. Other advantages include lower commercial land values, a lower population density, lower consumer prices and lower wages. Plus, while delinquency rates in Japan are relatively low compared with other industrialized nations, Osaka is characterized by an even lower delinquency rate than Tokyo.

While Tokyo is still the governmental and financial center of Japan, Osaka has been historically Japan's traditional commercial capital and, in fact, continues to be highly significant as a commercial center today (the standard greeting in Osaka is "*Mo kari makka?*"--"Making any money?"). It therefore has the financial resources and infrastructures to meet the needs of any expatriate multinational. The most modern telecommunication systems link Osaka and Tokyo (and the world). Osaka contains adequate translating and secretarial services, as well as information systems for foreign business persons. The Osaka municipal government encourages new investments, including foreign investments. Government and other (professional) officials actively seek and encourage outsiders who wish to locate in the area. The national government also encourages development in areas outside of Tokyo in order to decentralize the nation's commercial institutions.

In order to promote imports, the Osaka municipal government, along with several local trading firms, is developing a 43,000 square yard trade mart (one already exists) where foreign products can be displayed.

If a physical presence is needed in Tokyo, air and rail services are easily available. A bullet train ride takes slightly over three hours to cover the 556 kilometers separating the two cities. For those wishing to fly, an air-bus ride from one airport to the other requires about an hour, though the time to and from the center of each city must be added to the flight time.

As an intangible, Osakans are stereotyped by other

Japanese as more direct and materialistic (i.e. commercial): in short, more American in character. Americans not used to dealing with the indirectness of the Japanese and their unwillingness to say "no" (Alston, 1986: 345-6 and 1990; Imai, 1975 and 1981) will find the Osakan style of negotiation and agreement/disagreement more to their liking.

Conclusions

We suggest that foreigners entering the Japanese domestic market consider locating in Osaka or in other metropolitan centers rather than in Tokyo. Osaka shares highly similar, well-developed economic infrastructures like those found in Tokyo.

While Tokyo is the capital of Japan and is soon likely to become the financial center in the world, Osaka, Japan's second largest city, offers a number of distinct advantages over Tokyo. Having highly commercial and well-developed infrastructures, Osaka's population is less dense and its land values are less expensive. Osaka has also similar distribution networks. Particularly, for foreigners multinationals, the city also offers highly developed telecommunication networks and have both domestic and international transportation facilities.

In sum, we feel that too many foreign retailers assume that Tokyo remains the only metropolitan area in Japan to locate. While we do not wish to be considered as "boosters" for Osaka, there nevertheless remains the fact that for many reasons, Osaka is preferable to Tokyo as a retail location in terms of a number of socio-economic determinants.

APPENDIX A

VARIABLE DEFINITIONS FOR TABLE 5

AREA	Area in square miles
PERCENT UNEMPLOYED	Percent of adults unemployed, 1980
PER CAPITA INCOME	Income per capita, 1980
AVERAGE SALARY	Average monthly salary of males with a college degree or more
INDUSTRIAL INDEX	Index of all industrial activities (agriculture, forestry, fishing, factories, industrial products)
MANUFACTURING INDEX	Shipments of manufactured goods per person at work in 10,000 Yen, 1980
CULTURE INDEX	Index of culture: expenses for books, newspapers, TV, mail
ALCOHOL	Alcohol consumption per person by bottle, 1980 (size of bottle varies by content (beer, sake, etc.))
SUICIDE RATE	Suicides per 100,000 persons, 1980
TOTAL DELINQUENCY	Delinquents per 1,000 persons under

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